76th Congress }
3d Session }
SENATE COMMITTEE PRINT

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

TEMPORARY NATIONAL ECONOMIC COMMITTEE

A STUDY MADE UNDER THE AUSPICES OF THE DEPARTMENT OF COMMERCE FOR THE TEMPORARY NATIONAL ECONOMIC COMMITTEE, SEVENTY-SIXTH CONGRESS, THIRD SESSION, PURSUANT TO PUBLIC RESOLUTION NO. 113 (SEVENTY-FIFTH CONGRESS), AUTHORIZING AND DIRECTING A SELECT COMMITTEE TO MAKE A FULL AND COMPLETE STUDY AND INVESTIGATION WITH RESPECT TO THE CONCENTRATION OF ECONOMIC POWER IN, AND FINANCIAL CONTROL OVER, PRODUCTION AND DISTRIBUTION OF GOODS AND SERVICES

MONOGRAPH No. 9

TAXATION OF CORPORATE ENTERPRISE

Printed for the use of the
Temporary National Economic Committee

76th Congress } SENATE COMMITTEE PRINT
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Printed for the use of the
Temporary National Economic Committee

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TEMPORARY NATIONAL ECONOMIC COMMITTEE

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MONOGRAPH NO. 9

TAXATION OF CORPORATE ENTERPRISE

CLIFFORD J. HYNNING

ACKNOWLEDGMENT

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(Signed) JOSEPH C. O'MAHONEY,
Chairman, Temporary National Economic Committee.

TABLE OF CONTENTS

SCHEDULE OF TABLES AND CHARTS

TABLES

CHARTS

CHARTS—continued

APPENDIX A

TABLES

APPENDIX B

TABLES

APPENDIX D

TABLES

APPENDIX E

TABLES

EXHIBITS

APPENDIX F

TABLES

LETTER OF TRANSMITTAL

Hon. Joseph C. O'Mahoney,
Chairman, Temporary National Economic Committee,
Washington, D. C.

My Dear Senator: The power to tax is the power to define the character of our economic system. The present level of the fiscal requirements of the Government increases the significance of the tax structure as a positive factor in its impact upon business. Nevertheless, the present tax system is a patchwork put together over the years, a residue of varying philosophies and shifting attitudes toward different business practices. This becomes even more striking when Federal, State, and local methods of taxation are all reviewed in their state of uncoordination.

Whether so planned or not, taxes inevitably have a relationship to the problem of the concentration of industry. They may favor enterprises of differing sizes. They may encourage or discourage growth. They may help or hamper such devices as the holding company. They may influence the character of capital structures. They may penalize enterprises in fluctuating industries. Such intentions may not have been dominant in the minds of legislators; in fact, the results may have been quite in the form of a byproduct of some other purpose. Nevertheless, they may be important. It is the purpose of this study to examine the record on these points.

It is exceedingly difficult to analyze taxes on an inductive basis. The frequency of changes in tax laws and the continual fluctuation in business conditions complicate the problem. Although this report includes much new material, and new analyses of data previously available, there still remain many dark spots in the picture. But, at least, the problems are raised, and the report clearly demonstrates the importance of particular tax provisions to business life and practice. The converse of this approach, taxes as sources of revenue, has been regarded as outside the scope of this study.

Many individuals have contributed advice and counsel in this undertaking. Although they are in no way responsible for the analysis, we wish particularly to record our indebtedness to the Department of the Treasury, Securities and Exchange Commission, and Dun & Bradstreet, Inc.

Willard L. Thorp.

September 16, 1940.

CHAPTER I

TAXATION OF CORPORATE ENTERPRISE—THE PROBLEMS OF INQUIRY

AUTHORIZATION OF THE STUDY

On April 29, 1938, President Franklin D. Roosevelt recommended to Congress that it provide for—

> A thorough study of the concentration of economic power in American industry and the effect of that concentration upon the decline of competition. There should be an examination of the existing price system and the price policies of industry to determine their effect upon the general level of trade, upon employment, upon long-term profits, and upon consumption. The study should not be confined to the traditional antitrust field. The effects of tax, patent, and other Government policies cannot be ignored.

After specifying various items for study, including improvement of antitrust procedure, mergers, and interlocking relationships, financial controls, trade associations, and patent laws, the President referred to "tax correctives," as follows:

> Tax policies should be devised to give affirmative encouragement to competitive enterprise.
>
> Attention might be directed to increasing the intercorporate dividend tax to discourage holding companies and to further graduating the corporation income tax according to size. The graduated tax need not be so high as to make bigness impracticable, but might be high enough to make business demonstrate its alleged superior efficiency.
>
> We have heard much about the undistributed profits tax. When it was enacted 2 years ago, its objective was known to be closely related to the problem of concentrated economic power and a free capital market.
>
> Its purpose was not only to prevent individuals whose incomes were taxable in the higher surtax brackets from escaping personal income taxes by letting their profits be accumulated as corporate surplus. Its purpose was also to encourage the distribution of corporate profits so that the individual recipients could freely determine where they would reinvest in a free capital market.
>
> It is true that the form of the 1936 tax worked a hardship on many of the smaller corporations. Many months ago I recommended that these inequities be removed.
>
> But in the process of the removal of inequities, we must not lose sight of original objectives. Obviously the Nation must have some deterrent against special privileges enjoyed by an exceedingly small group of individuals under the form of the laws prior to 1936, whether such deterrent take the form of an undistributed-profits tax or some other equally or more efficient method. And obviously an undistributed profits tax has a real value in working against a further concentration of economic power and in favor of a freer capital market.

The joint resolution establishing the Temporary National Economic Committee provided for "a full and complete study and investigation" of "the effect of existing tax * * * policies upon competition, price levels, unemployment, profits, and consumption." By formal action of the Temporary National Economic Committee, the responsibility of the making of the study of business taxation was delegated to the Department of Commerce.

SCOPE OF THE STUDY

"Taxation of corporate enterprise" is a phrase of confusing generality. Confusion arises out of the many different kinds of corporations in existence and out of the many different types of taxes, varying in magnitude and economic effects. It is therefore necessary to break the generality down into its significant parts for analysis. At least two questions are posed at the very beginning: What corporations? What taxes?

The answer to the first question is one that must repeatedly be made, since the instant studies are undertaken industry by industry and also by size of corporation. It is possible at this point, however, to indicate a few limitations. "Business," as hereinafter understood, primarily refers to corporate enterprise, particularly in the field of manufacturing and trade,[1] except in chapters IX and X of this report, where some tax data are presented on individual proprietorships and partnerships. With the rapid spread of the corporate form into most industries, this limitation of the study is not believed to be very serious.

Taxes, taxes everywhere. The only properties they share in common lie in the circumstances that they are imposed by the lawmaker and collected by the tax administrator. Each differs from every other in the magnitude of its yield to the Government and in its economic effect upon the taxpayer. These differences are so striking in character that the use of a generic term—"tax"—is really nothing more than a dumping ground of unrelated charges for governmental services.

One form of tax is collected from the owner of something of value—e. g., a factory or a corporate charter—a tax he must pay without regard to whether his factory hums with industrial activity or lies idle. Such a tax is a "fixed cost" of the business that runs on year after year. A second type of tax may be based upon a defined unit of production or sale—e. g., a package of cigarettes, a bottle of liquor, a gallon of gasoline, or a kilowatt-hour—or upon the dollar amount of retail sales or the number of employees retained by the business. The magnitude of such a tax rests directly upon the volume of industrial activity—in a word, it is a "variable cost" of the business enterprise. A third type of tax is based on the profits of the business enterprise—that is, it is payable only in the event that the operating equation has been successfully solved and net income results.

The effects of taxes entering into the fixed or variable costs of business enterprise do not leave off with the business that legally pays the tax but are likely to extend to every person and agency with which the taxpayer has any dealings, either directly or indirectly. In the classical terminology of public finance such taxes are said to be "shiftable" in character, in whole or in part, forward or backward. It is very difficult, if not well-nigh impossible, to compute with precision where the "incidence" of such taxes finally comes to rest. The difficulty arises not only out of the varying nature of the "cost taxes," viewed a priori, but also out of the complicated characteristics of the taxpayer and the tax collector. Who is he? What does he do? Where and when does he do whatever he is doing? And for what purposes are the tax moneys spent?

[1] Data on so-called "agricultural" corporations, although available in the source, have not been separately presented because they are believed to be quite unrepresentative of agriculture.

The tax on profits or the income tax, as it is better known, cannot according to prevailing opinion—and no empirical studies have proved otherwise—generally be passed downward to the employees of the taxpayer or backward to his suppliers of raw materials, or forward to his customers or the ultimate consumers of his products and services. The income tax is unlike and apart from all other business taxes in this respect (death taxes and poll taxes excepted, neither of which has any application to business enterprise).

It is possible, of course, to improvise hypothetical cases in which the income tax can, in principle, be shifted over a long period of time, provided that the tax is either highly specific in character (having application only to certain industries) or contains substantial exemptions. But the taxes involved in the present inquiry are clearly of a general character—in short, the Federal income tax applies to all corporate enterprise that makes a profit, with proper allowance being made for certain exemptions (e. g., agricultural cooperatives, etc.). Although an income tax may over an extended period of time have an effect on prices (e. g., by curtailing the construction of new facilities), it would be true only in a period marked by the full use of resources (i. e., existing plant capacity, etc.) and by a scarcity of capital for new investment. Under existing circumstances, however, it is "noseplain" that these theoretical possibilities of shifting are of so negligible a nature as to be disregarded with safety.[2]

The study has been divided into 11 chapters, 7 of which are exclusively concerned with Federal corporate income taxation. The size and industrial problem is discussed in terms of statutory rates and exemptions (ch. II), deductions from gross income (ch. II), facilitation of intercorporate affiliation via consolidated tax returns (ch. III), credits for intercorporate dividends (ch. IV), corporate investment in governmental securities (ch. IV), the excess-profits tax (ch. V), and the surtax on undistributed profits (ch. V). The aggregate effect of Federal corporate income taxes upon corporate funds available for dividends and reinvestment by various types of corporations is examined in chapter VI. Next, chapter VII, follows a study of corporations with varying rates of profits (partially reflecting imperfect competition) and degrees of equity financing (ch. VIII). The remaining chapters deal with size and industrial aspects of the "cost" taxes, such as the pay-roll tax (ch. IX), Federal excises (ch. IX), sales taxes (ch. IX), the property tax (ch. X), and State corporate privilege taxes (ch. X). The concluding chapter summarizes the findings of the inquiry.

The principal sources of the study have been (*a*) income-tax data of the Bureau of Internal Revenue and (*b*) data obtained by questionnaires received by the Department of Commerce from 800 large manufacturing and mercantile corporations (for 1934–38) and by Dun & Bradstreet from 27,000 small and medium-sized business enterprises in manufacturing, trade, and service (for 1938). See the appendix for a fuller description of the data.

Such, in outline, is the agenda of the instant inquiry on the taxation of business enterprise. The nonagenda of the study needs specifica-

[2] There is also the case of Government price regulation of business "affected with a public interest"—e. g. railroads under the Interstate Commerce Commission—where, in determining "reasonable" rate of return on investment, income taxes are actually considered as a charge on that operating income which the business is deemed worthy of earning under the Constitution. *Galveston Electric Co.* v. *Galveston*, 258 U. S. 388 (1922). Also see C. E. Troxel, "Shifting of Public Utility Taxes," Bulletin of the National Tax Association, 25: 104–110 (1940).

tion. The study is not concerned with the effect of taxes upon natural persons—their consumption and investment habits.[3] Nor is the study concerned with the tax advantages and disadvantages of corporations in contrast to those of partnerships and proprietorships. In the latter case available data are so sparse and insubstantial that it was not believed feasible to attempt any empirical analysis.

TAXES, PUBLIC RECEIPTS, AND GOVERNMENTAL EXPENDITURES

Nor do these studies purport to ascertain whether taxes have been or are excessive. The volume of total tax collections—of the Federal Government, 48 State governments, and some 175,000 units of local government—has been steadily rising in recent times (except immediately following the Great War and during the depression years 1931–33). This increase is a fact, whether tax collections are measured in total dollars or in per capita dollars, or adjusted to the changing values of the dollar. The per capita tax payments in the United States amounted in the aggregate to $23.42 in 1913, $84.41 in 1920, $84.69 in 1930, and $114.09 in 1938. The Federal taxes per capita amounted to $6.87 in 1913, $53.77 in 1920, $29.45 in 1930, and $46.48 in 1938.[4] (See Table I in appendix F, infra, pp. 146–47.)

But governmental functions and services—financed in major part out of tax collections—have also been rapidly increasing, frequently at a more rapid rate than tax collections. The excess of governmental expenditures over receipts reflects, in a not inconsiderable part, capital outlays for physical improvements that add permanently to the wealth of the Nation, and is appropriately financed by borrowing. In other cases the coincidence of declining tax revenues and the dire need of governmental aid, especially during the depression, results in substantial budgetary deficits for particular years.

To speak of taxes as a "burden" without taking into account the productive use to which government puts such taxes—national defense, police and fire protection, highways, schools, sanitation, control of disease, relief, social security, to name only a few—is obviously a distortion of fact. Taxes are not collected and then dumped into the ocean. Like the sales of business, taxes are operating income out of which the Government finances its manifold activities.

The textbooks frequently contrast taxes and prices in terms of the compulsion-volitional elements involved. Yet it is obvious that one can refuse to pay the prices of necessities only at the expense of starvation, death, or imprisonment—with respect to many things there is no real choice. Likewise a person can refuse to pay the tobacco tax by not smoking. The difference between taxes and prices cannot be sharply drawn, and in fact they may frequently overlap, especially as business ceases to be a wholly "private" function—as if it ever were—and becomes affected with "public interest" and as government assumes functions formerly performed by private individuals and institutions (e. g., education, relief, etc.).

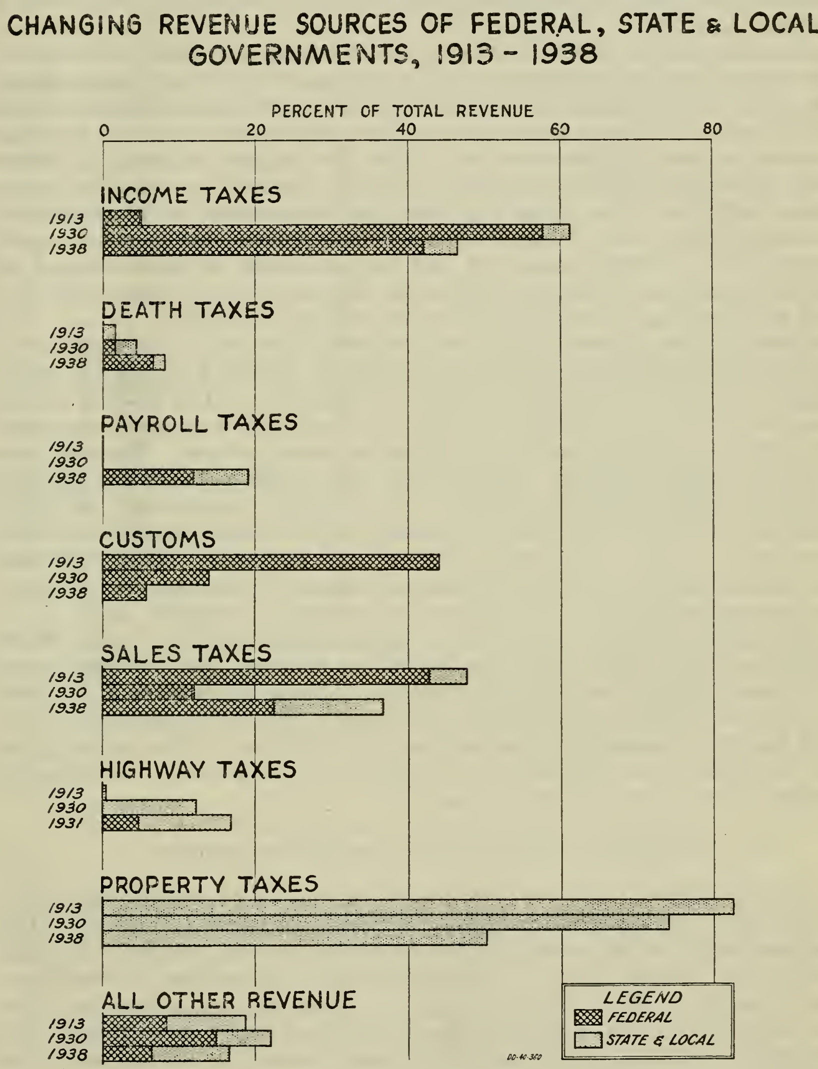
---

[3] See Temporary National Economic Committee monograph No. 3, Who Pays the Taxes? by Gerhard Colm and Helen Tarasov, 1940.

[4] The most rapid rise of governmental expenditures occurred during the first Great War of 1914–18, the economic and political consequences of which have colored governmental expenditures ever since—in the form of vast Army and Navy expenditures, pensions and soldiers' bonuses, debt services, agricultural relief for farmers whose lands and markets were disorganized, etc. For a study of the effect of the Great War upon taxation, see Clarence Heer, "Taxation," Recent Social Trends, pp. 1354–57.

The changing tax sources of the Federal, State, and local governments are shown in chart I. In 1913, the earliest year for which reliable data by tax sources are available for all three levels of government in the United States, the property tax (56.7 percent) and

CHART I



Source: U. S. Treasury Department's Annual Report and Bulletin, Recent Social Trends. Department of Commerce.

consumption taxes, including customs and liquor and tobacco taxes (30.5 percent), furnished the principal mainstay of the public revenues—in fact, they contributed 87 percent of the total receipts of the Federal, State, and local governments. The relative yield of the

property tax has since been steadily declining, until in 1938 it furnished less than one-third of the public revenues, in contrast to the pre-war era when it furnished more than one-half. The one-third produced by the property tax, however, is nonetheless more revenue than that raised by any other tax and is, of course, still the fiscal mainstay of most local governments. Customs has likewise been declining in relative yield, falling from 13.7 percent in 1913 to 2.3 percent in 1938.

In 1930, before the full effects of the depression had been felt by the tax system, the principal public receipts came from the property tax (45.7 percent), income taxes (24.1 percent), and highway taxes (7.6 percent). These three taxes in the aggregate accounted for 77.4 percent of total public receipts. Both the income tax and the highway taxes are relatively new taxes which were only nominally in evidence in 1913. The income tax on corporations and individuals is of primary importance to the Federal Government—the extensive areal jurisdiction of which makes it the best collector of taxes related to mobile wealth and income—while the highway taxes (motor vehicles and gasoline) have been largely collected by the States.

During the course of the depression and the consequent atrophy of income taxes as producers of revenue there occurred a striking resurgence of taxes on articles of mass consumption. The States widely enacted taxes on retail sales, while the Federal Government renewed its reliance on liquor taxes and manufacturers' excises. The tax pattern was again changed. As in 1913, consumption taxes contributed a major share of public receipts—in 1936 they accounted for more than one-fifth (21.7 percent) of total public receipts and more than equaled the yield of the income taxes (15.5 percent). That year also saw the enactment by the Federal and State Governments of a new tax on pay rolls as a part of the social-security program.

In 1938 the relative importance of consumption taxes had declined somewhat, but such taxes continued to account for a major share (18.6 percent) of total public receipts. Taxes on income (19.3 percent) and wealth (3.5 percent) increased relatively, although they still lagged considerably behind the 1930 figures. The pay-roll tax has emerged as an important revenue source (9 percent) to both the Federal and State Governments.

FEDERAL TAXATION OF CORPORATE PROFITS

In this study the Federal corporate income tax has been examined in terms of its effects upon the corporation paying the tax. The industrial unit of the study is the corporation as such, artificial creature of the law though it be. The individual stockholder is considered only insofar as his return on dividends may be diminished by taxes on corporate profits. This limitation of the study involves no distortion of analysis, except possibly in the case of the surtax on undistributed profits, where the full story cannot be told without taking into account individual stockholders whose surtax payments vary with the magnitude of corporate dividends paid out.

The corporation is theoretically owned by the stockholders who, as natural persons, ultimately (though paradoxically not necessarily ever, at least in practice) reap the successes and suffer the failures of the corporation. The corporation, it is said, is a mere legal conduit

erected for the benefit of the stockholders. But these general statements are hardly applicable to all types of corporations, of which there is a confusing variety. The small corporations, which are numerically very large (at least 350,000 of the 500,000 corporations annually reporting to the Bureau of Internal Revenue), are essentially like partnerships except for the legal form of organization.

But in many walks of American life it is the large corporation which has attained a state of dominance, producing the lion's share of the national output, its plants and activities located throughout the length and breadth of these United States, and its stocks trading on the national and international exchanges. It is of this latter type that it can be said that the corporation is ceasing to be merely an artificial aggregate of individuals and is emerging as a very real institution of vast social and economic importance in the modern economy. "The usual security holder in America," say Berle and Means, with particular reference to the investors in large corporations, has become a mere "petitioner for the wages of capital."

> The larger the corporation and the more widely distributed the stock, the more easily can an existing management retain its position through control of the proxy machinery. Such a management becomes virtually a self-perpetuating body. Such control without appreciable ownership has already been attained in many large American corporations, such as American Telephone & Telegraph Co., the General Electric Co., the Pennsylvania Railroad, and the United States Steel Corporation, and it appears to be the form toward which the modern corporation is tending. In such a corporation the separation of ownership and control is well-nigh complete. The stockholders no longer hold the position of partners in an enterprise; they have joined the bondholders as suppliers of capital. They are merely lenders of capital with a return which is not fixed but contingent upon the will of those in control. Their right to vote has become a right to revolution rather than a method of control. * * * [5]

These statements of course do not deny the fact that there are stockholders who play important roles in the management and control of corporate policies and activities. Though numerically few, there are usually in the case of each corporation some large stockholders who either participate directly in the management through membership or representation on the board of directors or periodically influence the management by specific suggestions which cannot be cavalierly ignored.[6]

The corporation frequently commands larger resources, employs more persons, and exerts greater power than several States of the Union, even assuming at times the attributes of sovereignty itself.

> Walter Rathenau in Von kommenden Dingen * * * suggested that corporate enterprises had reached a stage where they were almost nameless, soulless, and without any individual objective; he suggested the logical possibility that a corporation might even own all of its shares, continuing as a self-perpetuating organization of men working for an idea as abstract as the concept of the Nation.[7]

The corporate income tax's central dominance in the Federal fiscal system will grow readily evident from an inspection of table I. In 1940, the latest fiscal year for which collection figures are available, the corporate income tax accounted for approximately one-fifth of all Federal revenues. In actual dollars the corporate income tax in 1938 gave a yield of $1,337,000,000—a more mountainous revenue than has been raised by any other tax or in any year save during the war period alone.

[5] "Corporation," Encyclopedia of the Social Sciences, 4: 419–421.
[6] See "The 30,000 Managers," Fortune, February 1940.
[7] Berle and Means, op. cit., pp. 419, 421.

TABLE I.—*Sources of Federal Revenue, 1930–40*

[Millions of dollars]

	1930	1931	1932	1933	1934	1935	1936	1937	1938	1939	1940
Income, corporate	1, 263	1, 026	630	394	450	580	753	1, 082	1, 337	1, 150	1, 013
Income, individual	1, 147	834	427	353	420	527	674	1, 091	1, 286	1, 029	940
Capital stock					80	92	95	138	139	127	132
Securities and transfers	69	40	27	49	54	34	61	60	38	36	36
Liquor and tobacco	463	455	408	451	689	870	1, 007	1, 147	1, 136	1, 168	1, 231
Other commodity and service taxes	32	24	19	338	866	985	551	564	563	570	595
Customs	587	378	328	251	313	343	387	486	359	319	283
Death (including gift)	65	48	47	34	113	212	379	306	417	361	371
Pay roll								266	743	740	832
All other	1, 139	385	120	210	131	157	209	154	224	168	281
Total revenue	4, 178	3, 190	2, 006	2, 080	3, 116	3, 800	4, 116	5, 294	6, 242	5, 668	5, 704

PERCENT OF TOTAL REVENUE

	1930	1931	1932	1933	1934	1935	1936	1937	1938	1939	1940
Income, corporate	30. 2	32. 2	31. 4	18. 9	14. 4	15. 3	18. 3	20. 4	21. 4	20. 3	17. 7
Income, individual	27. 5	26. 1	21. 3	17. 0	13. 5	13. 9	16. 4	20. 6	20. 6	18. 2	16. 5
Capital stock					2. 6	2. 4	2. 3	2. 6	2. 2	2. 2	2. 3
Securities and transfers	1. 7	1. 3	1. 3	2. 4	1. 7	. 9	1. 5	1. 1	. 6	. 6	. 6
Liquor and tobacco	11. 1	14. 3	20. 3	21. 7	22. 1	22. 9	24. 5	21. 7	18. 2	20. 6	21. 6
Other commodity and service taxes	. 8	. 8	. 9	16. 2	27. 8	25. 9	13. 4	10. 7	9. 0	10. 1	10. 9
Customs		11. 8	16. 4	12. 1	10. 0	9. 0	9. 4	9. 2	5. 8	5. 6	5. 0
Death (including gift)	1. 6	1. 5	2. 3	1. 6	3. 6	5. 6	9. 2	5. 8	6. 7	6. 4	5. 5
Pay roll								5. 0	11. 9	13. 1	12. 4
All other	27. 3	12. 1	5. 9	10. 1	4. 2	4. 1	5. 1	2. 9	3. 6	3. 0	4. 9
Total	100. 0	100. 0	100. 0	100. 0	100. 0	100. 0	100. 0	100. 0	100. 0	100. 0	100. 0

NOTE.—Customs and total revenue are on the basis of daily Treasury statements (unrevised); the remaining taxes except "all other" are on a collection basis; whatever discrepancy may exist between the former and the latter bases is absorbed in the item entitled "all other." Discrepancies between the sum of individual percentages and 100 percent are due to the rounding of the figures.

Source: Computed from the Annual Reports of the Secretary of the Treasury for 1930–39 and from the 1941 Budget for 1940.

The relative importance of the Federal corporate-income tax, however, has not been notably on the increase. For though in 1931 it accounted roughly for one-third of the total Federal revenues, it accounts at the present time barely for one-fifth. The explanation for this disparity lies in (*a*) the high sensitivity of income taxes to the fluctuations of the business cycle—in the depression years its revenue yield declined disastrously, and only recently has it begun to approximate the position it previously occupied—(*b*) the adoption of Federal taxes on liquor following the repeal of the eighteenth amendment, (*c*) the expansion of manufacturers' excises, and (*d*) the development of new taxes on pay rolls as a part of the social-security program. In spite of all these recent changes the corporate-income tax remains one of the principal keystones of the structure of Federal revenues.

Corporate profits have been continuously subject to Federal taxation since 1909, when the tariff act imposed a 1-percent excise tax on corporate incomes in excess of $5,000. Prior to that year corporate profits had been wholly free of Federal taxation except during the brief Civil War interlude.[8] The ill-fated Income Tax Act of 1894 contained provisions applicable to corporations, but it foundered—in a constitutional sense—as a direct tax levied without apportionment as well as by its effort to tax corporate profits derived from holdings in State and local obligations.[9]

The excise tax on corporate profits was essentially a compromise and makeshift measure. The Democrats had desired a progressive income tax; President Taft, on constitutional ground, had preferred an inheritance tax; while the States objected to Federal trespassing upon their tax reserves. A great many people had become persuaded that, because of the unhappy experience with the 1894 act in the Supreme Court, a general income tax was impossible without a constitutional amendment. Pending its passage it was widely believed that an excise tax on corporate profits—a tax clearly constitutional, since the right of Congress to tax sugar-refining corporations on gross income had recently been upheld [10]—was much to be preferred to no tax at all.[11]

In transmitting his recommendation for an excise tax of 2 percent (reduced by Congress to 1 percent) on corporate profits, President Taft called attention to one important aspect of the tax:

> Another merit of this tax is the Federal supervision which must be exercised in order to make the law effective over the annual accounts and business transac-

[8] Income taxes collected from corporations during and following the Civil War (i. e., 1863–73) were relatively small in magnitude, amounting to $68,000,000 out of the total of $347,000,000, or less than one-fifth. See F. C. Howe, Taxation and Taxes in the United States under the Internal Revenue System, 1791–1895, pp. 98–99.

[9] See *Pollock* v. *Farmers' Loan and Trust Co.*, 157 U. S. 429 (1895). At least three of the colonies taxed income (Massachusetts starting in 1634, South Carolina starting in 1701, and New Hampshire starting in 1719) and Virginia in 1786 tried to tax income, but these incomes were predominantly those of natural persons, as was naturally to be expected for those days of the precorporate era. See National Industrial Conference Board, State Income Taxes (1930), I: 5, 19, 94, and 100. Also see the Board's study of State and Local Taxation of Business Corporations (1931), ch. I, citing temporary taxes on corporate income in Pennsylvania (1864), Virginia (1870), and Tennessee (1871). The first State attempt at taxing corporate profits in recent times came in 1911 when Wisconsin adopted an income tax applicable both to individuals and corporations. Also see the extensive survey by the U. S. Bureau of Corporations of Systems of Taxing Manufacturing, Mercantile, Transportation, and Transmission Corporations (1909–15).

[10] *Spreckels Sugar Refining Co.* v. *McClain*, 192 U. S. 397 (1904). The 1909 act was upheld as a "tax upon the particular privilege of doing business in a corporate capacity" by the Supreme Court in *Flint* v. *Stone Tracy*, 220 U. S. 107 (1911), at p. 151, even as applied to income from State and municipal bonds. "Where a tax is lawfully imposed upon the exercise of privileges within the taxing power of the State or Nation, the measure of such tax may be the income from the property of the corporation, although a part of such income is derived from property in itself nontaxable." At p. 163. To this extent the *Pollock case*, op. cit., was modified. The Court also adverted to the fact that "the possession of large assets is a business advantage of great value; it may give a standing which shall facilitate purchases; it may enable the corporation to enlarge the field of its activities and in many ways give it business standing and prestige; it may give credit which will result in more economical business methods." At p. 166.

[11] The total yield of the 1909 corporation excise tax amounted to approximately $129,000,000.

tions of all corporations. While the faculty of assuming a corporate form has been of the utmost utility in the business world, it is also true that substantially all of the abuses and all of the evils which have aroused the public to the necessity of reform were made possible by the use of this very faculty. If now, by a perfectly legitimate and effective system of taxation we are incidentally able to possess the Government and the stockholders and the public of the knowledge of the real business transactions and the gains and profits of every corporation in the country, we have made a long step toward that supervisory control of corporations which may prevent a further abuse of power. [12]

As passed by Congress, the Tariff Act of 1909 imposed an excise tax of 1 percent upon "the entire net income over and above $5,000 received by every corporation, joint stock company, or association, organized for profit and having a capital stock represented by shares" less dividends received from other corporations subject to the tax. Following the adoption of the sixteenth amendment, Congress passed the general income-tax law of 1913 which, in addition to a graduated tax on the income of individuals (ranging from 1 to 6 percent), imposed a tax of 1 percent upon "the entire net income arising or occurring from all sources" of "every corporation." The revenue acts of 1916, 1917, and 1918 successively raised the rate of the corporate income tax to 2, 4, and 12 percent, respectively. Since 1917 the corporate tax rate has exceeded the normal rate for individuals and the difference between the two rates has in fact been steadily growing. The 1917 act also introduced a new tax on corporations—the famous excess-profits tax, ranging from 20 to 60 percent of the corporate profits in excess of the average pre-war return on invested capital (not less than 7 percent nor more than 9 percent). The operation of this tax and its subsequent modifications by the 1918 and 1921 acts, as well as the special war profits tax of 1918, is described in appendix A. In 1919 the regular income tax applicable to corporations was reduced from 12 to 10 percent. Following the abolition of the excess-profits tax at the end of 1921, the tax rate was increased from 10 to 12½ percent, at which point it remained roughly throughout most of the roaring twenties. (See table II for details.) In 1932 the rate was raised higher still to 13¾ percent where it rested until the close of 1935.

TABLE II.—*Federal corporate income taxation, 1909–40; amount of tax, statutory and effective rates, and specific credits*

[All tax figures in millions]

	Normal tax				Excess-profits tax			
	Amount of tax reported	Statutory rates	Effective rates	Specific credits	Amount of tax reported [1]	Statutory rates	Effective rates [1]	Specific credits
		Percent				*Percent*		
1909	21	1	0.6	$5,000				
1910	34	1	.9	5,000				
1911	29	1	.8	5,000				
1912	35	1	.8	5,000				
1913	43	1	.9	None				
1914	39	1	1.0	None				
1915	57	1	1.1	None				
1916	172	2	2.0	None				
1917	504	[2] 2	4.7	None	1,639	20–60	[1] 15.3	$3,000 + 7–9 percent.[3]
1918	653	12	7.8	2,000	[1] 2,506	30–65	[1] 30.0	$3,000+8 percent.[3]
1919	744	10	7.9	2,000	1,432	20–40	[1] 15.2	Do.
1920	637	10	8.1	2,000	989	20–40	[1] 12.5	Do.
1921	366	10	8.5	[4] 2,000	335	20–40	[1] 7.7	Do.
1922	775	12.5	11.1	[4] 2,000	8		.1	
1923	937	12.5	11.3	[4] 2,000				
1924	882	12.5	11.6	[4] 2,000				

See footnotes at end of table.

[12] Messages and Papers of the Presidents, 17:7391.

TABLE II.—*Federal corporate income taxation, 1909–40; amount of tax, statutory and effective rates, and specific credits*—Continued

	Normal tax				Excess-profits tax			
	Amount of tax reported	Statutory rates	Effective rates	Specific credits	Amount of tax reported	Statutory rates	Effective rates	Specific credits
		Percent				*Percent*		
1925	1,170	[5] 13	12.2	[4] $2,000	----------	----------	----------	
1926	1,230	[5] 13.5	12.7	[4] 2,000	----------	----------	----------	
1927	1,131	[5] 13.5	12.6	[4] 2,000	----------	----------	----------	
1928	1,184	12	11.2	3,000	----------	----------	----------	
1929	1,193	11	10.2	[4] 3,000	----------	----------	----------	
1930	712	12	11.1	3,000	----------	----------	----------	
1931	399	12	10.6	3,000	----------	----------	----------	
1932	286	[6] 13.75	13.3	None	----------	----------	----------	
1933	416	[6] 13.75	13.9	None	7	5	.2	12½ percent.[7]
1934	588	[6] 13.75	13.8	None	8	5	.2	Do.[7]
1935	710	[6] 13.75	13.8	None	25	5	.5	Do.[7]
1936	1,025	[6] 8–15	14.9	None	22	6–12	.3	10–15 percent.[7]
1937	1,057	[6] 8–15	14.6	None	43	6–12	.6	Do.[7]
1938	(8)	16½–19	(8)	None	(8)	6–12	(8)	Do.[7]
1939	(8)	16½–19	(8)	None	(8)	6–12	(8)	Do.[7]
1940	(8)	14.85–24	(8)	None	(8)	6–12 25–50	(8)	Do.[7] $3,000.[11]

	War-profits tax		Surtax on undistributed profits				Total corporate income taxes		Individual income tax	
	Statutory rates	Specific credits	Amount of tax reported	Statutory rates	Effective rates	Specific credits	Amount of tax reported	Effective rates	Statutory tax rates	Effective rates
	Percent			*Percent*					*Percent*	
1909	--------	------------	---------	--------	-------	----------------	21	0.6	--------	------
1910	--------	------------	---------	--------	-------	----------------	34	.9	--------	------
1911	--------	------------	---------	--------	-------	----------------	29	.8	--------	------
1912	--------	------------	---------	--------	-------	----------------	35	.8	--------	------
1913	--------	------------	---------	--------	-------	----------------	43	.9	1–6	0.7
1914	--------	------------	---------	--------	-------	----------------	39	1.0	1–6	1.0
1915	--------	------------	---------	--------	-------	----------------	57	1.1	1–6	1.5
1916	--------	------------	---------	--------	-------	----------------	172	2.0	1–13	2.8
1917	--------	------------	---------	--------	-------	----------------	2,142	20.0	1–63	5.1
1918	[9] 80	$3,000+10 percent.[3]	---------	--------	-------	----------------	3,159	37.8	1–68	7.1
1919	--------	------------	---------	--------	-------	----------------	2,175	23.1	1–68	6.4
1920	--------	------------	---------	--------	-------	----------------	1,625	20.6	1–68	4.5
1921	--------	------------	---------	--------	-------	----------------	702	16.2	1–68	3.8
1922	--------	------------	---------	--------	-------	----------------	784	11.3	1–50	4.0
1923	--------	------------	---------	--------	-------	----------------	937	11.3	1–50	2.7
1924	--------	------------	---------	--------	-------	----------------	882	11.6	1–40	2.7
1925	--------	------------	---------	--------	-------	----------------	1,170	12.2	1–20	3.4
1926	--------	------------	---------	--------	-------	----------------	1,230	12.7	1–20	3.3
1927	--------	------------	---------	--------	-------	----------------	1,131	12.6	1. 20	3.7
1928	--------	------------	---------	--------	-------	----------------	1,184	11.2	1. 20	4.6
1929	--------	------------	---------	--------	-------	----------------	1,193	10.2	1–20	4.0
1930	--------	------------	---------	--------	-------	----------------	712	11.1	1–20	2.6
1931	--------	------------	---------	--------	-------	----------------	399	10.8	1–20	1.8
1932	--------	------------	---------	--------	-------	----------------	286	13.3	1–55	2.8
1933	--------	------------	---------	--------	-------	----------------	423	14.2	1–55	3.4
1934	--------	------------	---------	--------	-------	----------------	596	13.9	4–59	4.0
1935	--------	------------	---------	--------	-------	----------------	725	14.2	4–59	4.4
1936	--------	------------	145	7–27	1.6	Dividends paid.	1,191	16.8	4–75	6.3
1937	--------	------------	176	7–27	2.1	do	1,276	17.3	4–75	5.4
1938	--------	------------	(8)	2½	-------	do.[10]	(8)	(8)	4.75	6.1
1939	--------	------------	(8)	--------	-------	----------------	(8)	(8)	4.75	(8)
1940	--------	------------	(8)	--------	-------	----------------	(8)	(8)	4.75	(8)

[1] Includes the war-profits tax.
[2] Additional tax of 1 percent on dividends.
[3] The percent represents the rate of return on "invested capital" that is exempt from tax.
[4] Available only to corporations with net incomes less than $25,000.
[5] Insurance companies taxed on 12.5.
[6] Consolidated companies taxed at higher rates (14.5 percent in 1932; and 14.75 percent in 1933; and 15.75 percent in 1934–35).
[7] Of capitalization as declared in the corporation's return under the Federal capital-stock tax.
[8] Unavailable (September 1940).
[9] Applicable to income from government contracts in excess of $10,000; the amount of the excess-profits tax may be claimed as a pro rata deduction from the war-profits tax.
[10] Inapplicable to corporations with net incomes under $25,000.
[11] Plus a special credit equivalent to either (*a*) 95 percent of the average earnings in prior years (1936–39) or (*b*) 8 percent on invested capital.

Source: Computed from Statistics of Income for respective years. Note that these figures are based on unaudited returns (since 1916) which are usually for calendar years, and hence may not agree with figures based on collection reports (usually for fiscal years).

The Revenue Act of 1935 (applicable to 1936) introduced a slight graduation into the corporate-income-tax rate structure for the first time in the history of the Federal revenue acts,[13] ranging from 12½ to 15 percent. But before this provision of the 1935 revenue act could be made effective in 1936 a new revenue act was enacted. The slight graduation from 12½ to 15 percent was increased to run from 8 to 15 percent, and a new surtax at severely graduated rates (7 to 27 percent) was imposed on that portion of corporate profits which were not distributed to stockholders in the form of dividends. This new surtax had been originally designed as a tax to supplant instead of to supplement the existing corporate income taxes. In 1938 the surtax on undistributed profits was repealed in substance (leaving a mere remnant of 2½ percent), and the graduated rate structure of the normal tax was modified, ranging from 12½ to 16 percent for corporations with net incomes under $25,000. Corporations with net incomes in excess of $25,000 were tentatively taxed at the rate of 19 percent with a possible credit of 2½ percent for dividends paid.[14] The remnant of the surtax on undistributed profits was completely repealed by the 1939 Revenue Act (applicable to 1940). A flat tax of 18 percent was imposed on corporations with incomes over $25,000. As under the 1938 act, corporations with less income were subject to a graduated rate structure ranging from 12½ to 16 percent.[15] In consequence of the two revenue acts of 1940 the normal tax on the smaller corporations has been raised to 14.85 percent and on the larger corporations to 24 percent, with special provisions covering the border-line cases. The disparity in statutory rates, is now 9.15 percent, greater than it ever has been.

The trend of the statutory tax rates applicable to corporate incomes has been steadily upward, except for a plateau period during the twenties. Throughout most of this term the statutory rate was flat, with the notable exception of the war period. Yet it would not altogether be correct to conclude that small corporations were taxed at the self-same rate as large corporations. A special factor frequently came into play in the form of a specific credit varying from $2,000 to $5,000 against net income. A credit of that description was available to all corporations for the years 1909–12 and 1918–20, while only corporations with incomes under $25,000 could take advantage of the credit for the years 1921–31. No such credit was available to any corporations for the years 1913–17 and 1932 to date. The slight graduation of the rate structure since 1936 has operated in an equivalent manner to favor small corporations.[16]

Passing from a statement of tax rates found in statute books to the dollar and cents reported by the Treasury, these trends over a period of time may be graphically underscored. The outstanding fact of

[13] Since the turn of the century there have been proposals in Congress for progressive taxation of corporate profits. During the consideration of the 1924 Revenue Act the Senate made a substantial attempt to impose a steeply graduated rate structure on corporate incomes. At least six States (Arizona, Idaho, Mississippi, North Dakota, South Dakota, and Wisconsin) had graduated corporate income taxes by 1935. The largest range in the statutory rates occurs in the South Dakota tax (from 1 to 8 percent).

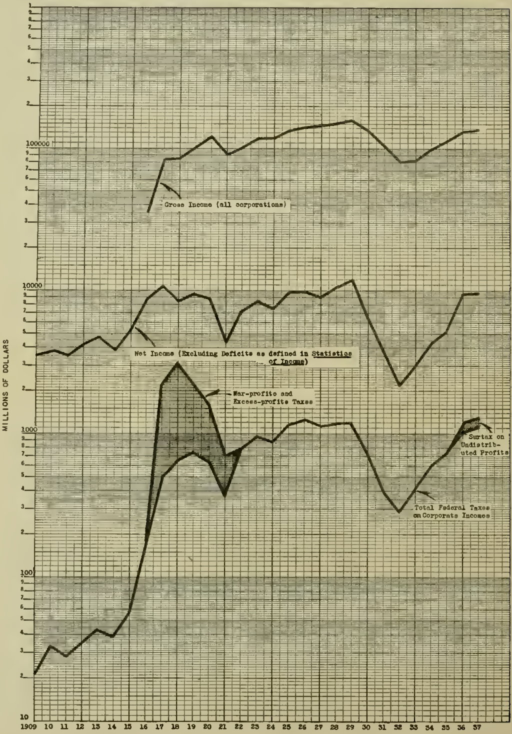
[14] The rate mechanics of the 1938 act were not overly clear to an uninitiated reader. Instead of permitting the deduction of 85 percent of intercorporate dividends from corporate profits in determining net income for normal-tax purposes and calculating the normal tax therefrom separately, as under the 1936 act, the law provided that a tentative tax at the rate of 19 percent should be calculated from net income and that against such tax should be credited (a) 16½ percent of the credit for 85 percent of dividends received and (b) 2½ percent of the dividends paid out.

[15] The specialized treatment of banks, insurance companies, China Trade Act corporations, and domestic corporations operating in United States possessions was abandoned and the regular provisions of the 1939 act were made applicable to the same. Mutual-investment companies continued to be credited with dividends paid out rather than with dividends received.

[16] *Infra*, pp. 26–27.

CHART II

FEDERAL CORPORATE INCOME TAXES AND CORPORATE GROSS AND NET INCOMES 1909-37



D D 40-120

Source: Statistics of Income for respective years.
Department of Commerce.

chart II is the stupendous soaring of the income taxes during the war period. The peak was of course furnished by the special excess-profits and war-profits taxes, but it remains noteworthy that the regular tax on corporate income also soared and substantially remained on the high level of productivity set by the war period (save for an exceptional drop in 1921 which was rapidly recovered).

In spite of a lowering of the statutory tax rates in the bountiful twenties the Treasury continued to report large taxes. With the advent of the depression in the thirties the income tax dipped sharply downward, reaching a low point in 1932 which was only slightly above the figures for 1916. The recovery in income taxes has been almost as sharp as the preceding decline, and in 1936–37 the tax returns more than equaled even the peacetime peak set in 1926. A not unimportant portion of the 1936–37 figures was contributed by the special surtax on the undistributed profits of corporations (shaded on the diagram).

DEFINITION OF CORPORATE PROFITS FOR TAX PURPOSES

The Federal Government may constitutionally tax corporations on their gross incomes. Deductions from gross income are consequently matters of "legislative grace." That is, the Constitution does not require them, although sensible economic policy may dictate them as inherent to the concept of an income tax as contrasted with other taxes. But Congress, as Professor Magill pointed out in his study of Taxable Income, has displayed "increasing liberality in granting deductions, except in the case of losses on sales of capital assets." [17]

The increasing complexities of modern taxation of individual and business enterprise alike, about which there is much complaint, is indeed an inescapable consequence of higher tax rates. The higher the tax rates the greater the necessity for defining income as closely as possible to "economic income" in order to avoid inequities and hardships of individual taxpayers. Moreover, the tax administrators are faced with magnified problems of enforcement of the tax laws in order to prevent evasion. The interests of equity and revenue needs coincide in requiring detailed accounts and definitions of what legitimately goes in and out of gross receipts before "taxable income" can be determined.

These deductions at present include principally (1) cost of materials and labor (commonly referred to in statistical sources as "cost of goods sold" and "cost of operation"), (2) compensation of officers, (3) rent, (4) repairs, (5) bad debts, (6) interest, (7) taxes, (8) contributions or gifts, (9) losses by fire, storm, shipwreck, or other casualty, or theft, (10) depreciation, (11) depletion, and (12) net losses for prior years. Interest on Government obligations is included only partially in gross income and from a nontechnical point of view could be regarded as a deduction to this extent. Similarly, 85 percent of the intercorporate dividends are taken as a "credit" from gross income and in this respect might be regarded as a "deduction." The relative importance of these various deductions, measured as percentages of total corporate receipts, is shown in table III for the years 1917–37.

[17] P. 319.

TABLE III.—*Deductions and credits from corporate gross receipts, 1917–37*

[All income-tax returns]

A. IN BILLIONS OF DOLLARS

Year	Gross receipts	Cost of goods sold	Compensation of officers	Rent paid	Interest paid	Taxes paid	Bad debts	Depreciation	Depletion	Capital loss	Other deductions	Total deductions	Net profits (excluding deficits)	Tax-exempt dividends	Tax-exempt interest	Taxable net income (excluding deficits)	Net loss carry-over	Specific credit	Net income after all credit
1917	[1] 84.7	50.4	1.4	(3)	2.2	1.0	(3)	1.7	(5)	(3)	18.1	74.6	(3)	(3)	(3)	10.7	--------	--------	10.7
1918	86.6	56.5	2.2	(3)	2.6	.8	(3)	[4] 2.4	(5)	(3)	14.2	78.8	(3)	0.4	0.1	8.4	(3)	--------	8.4
1919	101.0	63.8	2.0	(3)	2.3	.9	(3)	[4] 2.0	(5)	(3)	20.5	91.5	(3)	.4	.2	9.4	(3)	--------	9.4
1920	118.4	75.6	2.4	(3)	2.8	1.2	(3)	[4] 2.5	(5)	(3)	27.8	112.3	(3)	.5	.2	7.9	(3)	--------	7.9
1921	91.7	56.8	2.3	(3)	3.1	1.5	(3)	[4] 2.6	(5)	(3)	24.5	90.8	(3)	.5	.2	4.3	(3)	--------	4.3
1922	101.3	61.8	2.4	(3)	3.1	1.5	(3)	[4] 2.9	(5)	(3)	23.6	95.3	(3)	.8	.4	7.0	0.5	(3)	6.5
1923	119.0	73.7	2.6	(3)	3.3	1.6	(3)	[4] 3.1	(5)	(3)	27.1	111.4	9.3	.9	.5	8.3	.6	(3)	7.8
1924	119.7	75.9	2.6	(3)	3.4	1.7	(3)	[4] 3.2	(5)	(3)	26.1	113.0	8.7	.9	.5	7.6	.2	(3)	7.4
1925	136.7	86.6	(3)	(3)	3.6	(3)	(5)	2.9	0.5	(3)	33.8	127.4	11.0	1.2	.5	9.6	.2	(3)	9.3
1926	142.6	82.5	(3)	(3)	4.0	1.9	(3)	3.3	.6	(3)	40.9	133.2	11.3	1.5	.5	9.7	.2	0.3	9.4
1927	144.9	83.5	(3)	(3)	4.4	2.0	0.8	3.3	.5	(3)	41.7	136.2	10.7	1.7	.5	9.0	.2	.3	8.7
1928	153.3	87.3	3.2	(3)	4.6	2.2	.8	3.6	.5	(3)	40.5	142.6	12.7	1.9	.5	10.6	.3	.5	10.3
1929	161.2	91.1	3.3	(3)	4.9	2.2	.9	3.9	.6	(3)	42.4	149.3	14.3	2.6	.5	11.7	.4	.4	11.3
1930	136.6	76.2	3.2	(3)	4.9	2.3	1.0	4.0	.5	1.0	39.1	131.9	8.5	2.6	.5	6.4	.2	.3	6.3
1931	108.1	58.8	2.7	(3)	4.5	2.2	1.2	4.0	.3	1.7	33.5	108.8	4.8	2.0	.5	3.7	.1	.2	3.5
1932	81.6	41.4	2.1	(3)	4.0	2.1	1.3	3.7	.2	1.7	28.8	85.5	2.7	1.3	.6	2.2	.1	--------	2.1
1933	84.2	[2] 53.0	2.0	1.4	3.5	2.1	1.3	3.5	.2	1.7	16.4	85.2	3.6	1.0	.6	3.0	--------	--------	3.0
1934	101.5	[2] 66.1	2.2	1.5	3.4	2.2	1.2	3.4	.3	.3	18.0	98.5	5.4	2.2	.7	4.3	--------	--------	4.3
1935	114.7	[2] 75.4	2.3	1.5	3.3	2.6	1.0	3.4	.3	.2	19.1	109.2	6.9	3.0	.7	5.2	--------	--------	5.2
1936	132.7	[2] 88.9	2.7	1.5	3.1	3.0	.9	3.3	.4	.1	21.0	125.0	9.7	2.3	.7	[6] 6.9	--------	--------	6.9
1937	142.4	[2] 96.4	2.8	1.6	3.0	3.7	.8	3.3	.5	.2	22.4	134.6	9.8	2.2	.7	[6] 7.2	--------	--------	7.2

B. IN PERCENT OF GROSS RECEIPTS (EXCEPT NET LOSS CARRY-OVER AND SPECIFIC CREDIT WHICH ARE IN PERCENT OF TAXABLE NET INCOME)

1917	100	58.3	1.6	([7])	2.5	1.2	([7])	2.0	([5])	([7])	21.4	88.1	--------	--------	0.2	12.7	--------	--------	--------
1918	100	65.3	2.6	([7])	3.0	1.0	([7])	[4] 2.8	([5])	([7])	16.5	91.1	--------	0.5	.2	9.7	--------	--------	--------
1919	100	63.9	2.0	([7])	2.2	.9	([7])	[4] 2.1	([5])	([7])	20.5	91.6	--------	.4	.2	9.4	--------	--------	--------
1920	100	63.9	2.1	([7])	2.4	1.0	([7])	[4] 2.1	([5])	([7])	23.5	95.0	--------	.4	.2	6.7	--------	--------	--------
1921	100	62.3	2.5	([7])	3.4	1.6	([7])	[4] 2.8	([5])	([7])	26.8	99.5	--------	.6	.4	4.8	--------	--------	--------
1922	100	61.0	2.4	([7])	3.0	1.5	([7])	[4] 2.9	([5])	([7])	23.3	94.1	--------	.7	.4	6.9	7.1	--------	6.4
1923	100	61.9	2.2	([7])	2.8	1.4	([7])	[4] 2.6	([5])	([7])	22.8	93.6	7.8	.7	.4	7.0	7.2	--------	6.7
1924	100	63.4	2.2	([7])	2.9	1.4	([7])	[4] 2.7	([5])	([7])	21.8	94.3	7.3	.8	.4	6.4	2.6	--------	6.2
1925	100	63.4	([7])	([7])	2.7	([7])	([7])	2.1	0.4	([7])	24.7	93.2	8.0	.9	.4	7.1	2.1	--------	6.8
1926	100	57.8	([7])	([7])	2.8	1.3	([7])	2.3	.4	([7])	28.7	93.4	7.9	1.1	.3	6.8	2.1	3.1	6.6
1927	100	57.6	([7])	([7])	3.0	1.4	0.6	2.3	.3	([7])	28.7	94.0	7.4	1.1	.3	6.2	2.2	3.3	5.8
1928	100	56.9	2.1	([7])	3.0	1.4	.5	2.3	.3	([7])	26.4	93.2	8.3	1.3	.3	6.9	2.8	4.7	6.7
1929	100	56.5	2.1	([7])	3.1	1.4	.6	2.4	.3	([7])	26.3	92.7	8.9	1.6	.4	7.3	3.4	3.4	7.0
1930	100	55.8	2.3	([7])	3.6	1.7	.7	2.9	.3	0.7	28.6	96.6	6.2	1.9	.5	4.7	3.1	4.7	4.6
1931	100	54.4	2.5	([7])	4.2	2.1	1.1	3.7	.2	1.6	31.0	100.8	4.4	1.8	.7	3.4	2.7	5.4	3.2
1932	100	50.7	2.6	([7])	5.0	2.6	1.6	4.5	.3	2.1	35.3	104.7	3.3	1.6	.7	2.7	4.5	--------	2.6
1933	100	[2] 63.0	2.4	1.7	4.2	2.5	1.5	4.2	.3	2.0	19.5	101.1	4.3	1.2	.6	3.6	--------	--------	3.6
1934	100	[2] 65.2	2.1	1.5	3.4	2.1	1.2	3.3	.3	.3	17.7	96.7	5.3	2.2	.6	4.2	--------	--------	4.2
1935	100	[2] 65.8	2.0	1.3	2.8	2.3	.8	2.9	.3	.2	16.6	95.4	6.6	2.6	.6	4.5	--------	--------	4.5
1936	100	[2] 67.0	2.0	1.2	2.3	2.2	.7	2.5	.3	.1	15.8	94.2	7.3	1.7	.6	[6] 5.2	--------	--------	5.2
1937	100	[2] 67.8	2.0	1.1	2.1	2.6	.5	2.3	.4	.1	15.4	94.4	6.9	1.5	.5	[6] 5.2	--------	--------	5.1

[1] Gross income (excludes Government interest).
[2] Includes "Cost of operations" (previously tabulated with "Other deductions").
[3] Unavailable.
[4] Includes "Amortization."
[5] Included with depreciation.
[6] Net income for normal tax purposes (i. e., less 85 percent of intercorporate dividends, Government interest, and the amount of the excess-profits tax).
[7] Unavailable (tabulated with "Other deductions").

The most important deductions—and increasingly so in recent years—are naturally those for cost of goods sold and cost of operations which have constituted approximately two-thirds of total corporate receipts. The most important single deduction remaining—aside from the miscellaneous group—was that of taxes paid in 1937; in 1936 it was that of depreciation; and in 1935 and prior years (as far back as 1917) it was that of interest. The tax deduction has been increasing, rising from a low of 0.9 percent in 1919 to a high of 2.6 percent in 1932 and 1937. The deduction of interest has been steadily declining since 1932 from a high of 5 percent in that year to 2.1 percent in 1937, lower than it has been in any previous year for which data are available. The deduction for depreciation has likewise been declining since 1932, although not so rapidly as that for interest, falling from a high of 4.5 percent in 1932 to 2.3 percent in 1937 (which is equivalent to the period 1926–29), nor has the depreciation deduction reached the low point of the pre-war and the immediate post-war years (1917–20) when depletion and wartime amortization were reported together with depreciation.

Next in importance has been the deduction for compensation of officers, which also has been declining in recent years, falling from a high of 2.6 percent in 1932 to 2 percent in 1935–37, which is lower than for any other year except 1916. The deduction for rent paid has been steadily declining during the short period for which data are available, decreasing from 1.7 percent in 1933 to 1.1 percent in 1937. The deduction for bad debts is substantially at the same percentage in 1937 as it was in the late twenties, one-half of 1 percent or slightly more—it reached a high of 1.6 percent in 1932. The drastic drop in the relative importance of capital losses reflects the limited deductibility (not exceeding $2,000) for this item that was introduced by the Revenue Act of 1934, falling from 2.1 percent in 1932 to 0.3 percent in 1934 and to 0.1 percent in 1937. The Revenue Act of 1938 (sec. 212) has relaxed the limitations upon the capital losses deduction. The only deduction showing substantially no change in the period for which data are available (i. e., since 1925) is depletion, which has amounted to approximately one-third of 1 percent of the total receipts of all corporations. It is a deduction of very major significance to extractive industries and of no import to the vast number of corporations.

The credits (in the nature of a deduction) for specific sources of investment income—e. g., intercorporate dividends and interest received on governmental obligations—have been steadily growing in importance, reaching a peak in 1935, when they amounted to 3.2 percent of corporate receipts. The relative decline of the credit for intercorporate dividends since 1935 reflects presumably the changes in the revenue acts of 1936 and subsequent years under which 15 percent of intercorporate dividends must be included in taxable income.

The excess of receipts over the foregoing deductions and credits results in net income for tax purposes. Taking net income (excluding deficits) as percentages of total corporate receipts, it is apparent that net income was largest during the war years (1917–19) and during the prosperous twenties, when it varied from 6 to 12 percent of total receipts. Both the absolute and relative amount of net income declined catastrophically during the depression, amounting to 2.7 percent of total receipts in 1932. While the figure has been steadily

rising from the low in 1932 to 5.2 percent in 1937, net income still remains considerably lower than the high points reached during the roaring twenties.[18]

The relative decline since 1932 in substantially all deductions—except cost of goods sold—has naturally reflected itself in a relative rise of the amount of taxable net income, increasing from 2.7 percent of total corporate receipts in 1932 to 5.2 percent in 1937. But the latest figure (1937) is still relatively lower than those for years prior to 1930, with the single exception of 1921 (a depression year).

MAGNITUDE OF FEDERAL TAXES AND CORPORATE PROFITS, 1916–37

Any examination of the effects of Federal corporate income taxes upon corporate profits obviously depends upon the coincidence of two factors—taxes and profits. Corporations without net income clearly have no profits and likewise pay no income taxes. They have, therefore, been excluded from the study of the relationship of income taxes to corporate profits, although they have been considered in the studies of statutory deductions from gross income, without which deficits could not be legally established.

To deduct the deficits or losses of one group of corporations from the profits of another group of corporations is to assume that the corporate universe is a closed system in which the operating profits of one group of corporations—profits which may be used for industrial expansion—may be diminished, canceled, or converted into deficits by the losses of another group of corporations. This assumption is hardly realistic, for the successful corporations still have their profits. The losses of the unsuccessful group, of course, fall upon the equity owners and may, of course, if continued over a long time, fall upon creditors, workers, and the community at large (e. g., if the plant is closed).

The amount of Federal income taxes paid by corporations and the amount of corporate income available for reinvestment in or by corporations and for distribution to individual investors is shown graphically in chart III for all corporations reporting net income in the years 1916 through 1937. The length of the bar for any given year shows, in billions of dollars, the amount of (1) Federal income taxes, (2) corporate profits paid out as cash dividends (unavailable prior to 1926), (3) corporate profits after taxes and dividends, (4) charges for depreciation and depletion, and (5) interest payments.

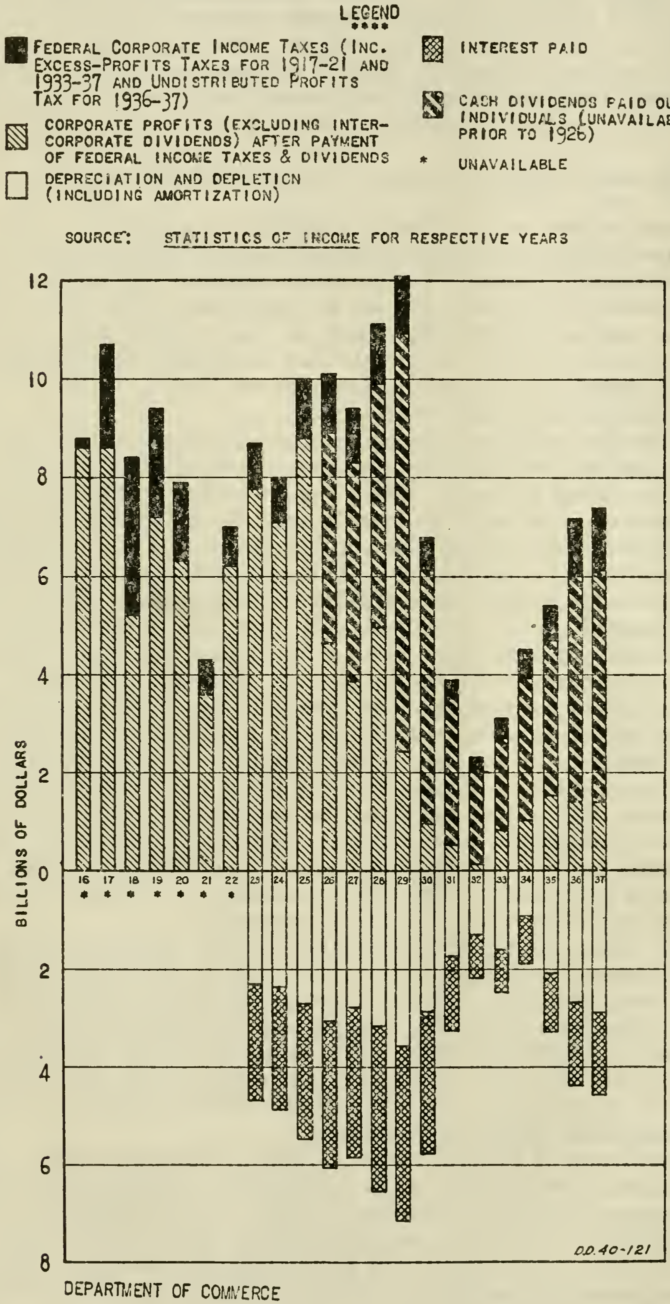
In 1937, after paying $1,276,000,000 income taxes (including the excess-profits and undistributed-profits taxes) to the Federal Government, corporations had at their disposal for plant replacement and industrial expansion and for distribution to investors (as natural persons) some $10,700,000,000. This sum consists of $6,100,000,000 profits after all charges, $2,900,000,000 depreciation and depletion additions to reserves, and $1,700,000,000 interest payments to bondholders and other nonequity investors.

The magnitude of Federal taxes in 1936–37 compares fairly closely with the amount of Federal taxes collected from corporations during the later twenties, when corporate profits were considerably larger than in 1936–37. Taxes on corporate profits were largest during the war era, reaching a peak in 1918 of $3,159,000,000, when the volume of profits was more comparable to that prevailing in the later thirties.

[18] Between 1918 and 1932 net income was subject to 2 additional credits—one for net operating losses in prior years and the other for a specific amount of net income—$2,000 to $3,000—available to corporations with net incomes under $25,000. The effect of these provisions are examined, infra, pp. 23–25, 36–38.

CHART III

FEDERAL TAXES AND CORPORATE INCOME AVAILABLE FOR REINVESTMENT OR DISTRIBUTION TO INDIVIDUALS, 1916–37 (NET-INCOME CORPORATIONS ONLY)



As it is to be expected of an income tax, the volume of Federal corporation income taxes varies closely with the volume of corporate profits. Profits (after taxes) fell from 10.9 billion dollars in 1929 to 2 billion dollars in 1932, or a decline of 89 percent. In the same period taxes declined from 1$\frac{3}{10}$ billions to 400 millions, or a fall of 67 percent. Meanwhile the revenue act had been changed, increasing the tax rate from 11 to 13$\frac{3}{4}$ percent and eliminating the specific credit of $3,000, available to corporations with small incomes. Between 1932 and 1937 profits (after taxes) rose from 2 billions to 6$\frac{1}{10}$ billions, an increase of 205 percent. Taxes increased in the same period from 400 million to 1$\frac{3}{10}$ billions, or an increase of 224 percent, somewhat greater than the increase in corporate profits.

To sum up: During the depression the volume of corporate profits dropped more rapidly than the reported yield of Federal corporate income taxes. With the improvement of business conditions, Federal corporation income taxes tended to increase somewhat faster than the surge of corporate profits, although the lag between taxes and profits was much narrower during the later period than during the depression drop.

CHAPTER II

FEDERAL TAXATION OF CORPORATE INCOME: STATUTORY RATES, EXEMPTIONS, AND DEDUCTIONS

Size has emerged in recent years as one of the cardinal problems of Federal corporate income taxation. Do the corporate income tax laws favor big business or discriminate against it or do they play the role of a neutral? Is small business accorded different treatment from big business under the revenue acts? Is medium-sized business shown favor or discrimination? In what measure are existing size differences in the operations of the Federal tax on corporate profits the reflections of statutory language and legislative policies or the somewhat inadvertent results of administering tax laws in a complicated economical world? How do different industries fare under the tax laws?

Size and industry differences in the operation of Federal corporation income taxes may arise in several ways. The Federal revenue acts may—

(1) Exempt from corporate taxation (*a*) specific industries, thus favoring corporations engaged in such industries, or (*b*) a minimum amount of net income, favoring corporations with small incomes.

(2) Adapt the rate structure to specific types of corporations, taxing at higher rates corporations in specific industries or with relatively large net incomes or earning relatively high return on investment.

(3) Authorize deductions from gross income which may be more important to corporations of certain sizes and industries than to others.

(4) Define the accounting period by allowing or prohibiting the deduction of prior years' losses, favoring or discriminating against corporations with fluctuating income.

(5) Authorize credits against (or deductions from) net income for intercorporate dividends and interest on Government obligations (generally held by the larger corporations).

(6) Further size variations may result from the interaction of a complex system of different types of Federal taxes applicable to corporate profits.

INDUSTRIES EXEMPT FROM FEDERAL TAXATION OF CORPORATE INCOME

The present Federal revenue act (as of January 1, 1940) exempts the following types of corporations from income taxation: (1) Labor organizations; (2) agricultural or horticultural organizations (including county fairs); (3) mutual savings banks without capital stock; (4) fraternal beneficiary societies, orders, or associations; (5) domestic building and loan associations, substantially all of the business of which consists of making loans to members; (6) cooperative banks

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without capital stock organized and operated for mutual purposes (including credit unions); (7) cemetery companies owned and operated exclusively for the benefit of their members; (8) corporations or organizations (including community chests, funds, and foundations) organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals, no substantial part of the activities of which is carrying on propaganda or otherwise attempting to influence legislation; (9) business leagues, chambers of commerce, real-estate boards, and boards of trade; (10) civic leagues or organizations for the promotion of social welfare; (11) local associations of employees; (12) social clubs owned and operated exclusively for pleasure and recreation; (13) local benevolent life-insurance associations;[1] (14) mutual ditch or irrigation companies; (15) mutual or cooperative telephone companies;[2] (16) farmers or other mutual, hail, cyclone, casualty, or fire-insurance companies;[3] (17) cooperative associations engaged in marketing the products of farmers, fruit growers, livestock growers, dairymen, etc.;[4] (18) cooperative associations engaged in purchasing supplies and equipment for farmers, fruit growers, livestock growers, dairymen, etc.;[5] (19) corporations organized to finance crop operations and operated in conjunction with marketing or purchasing associations; (20) corporations organized for the purpose of holding title or collecting income and turning same over to a tax-exempt organization; (21) corporations chartered by Congress and exempted from Federal income taxes by the act of incorporation; (22) voluntary employees' beneficiary associations; (23) local teachers' retirement-fund associations; and (24) religious or apostolic associations or corporations.[6]

This list of exempt corporations represents the cumulative results of approximately three decades of tax legislation. The trend of this exemption legislation is quite clear—the types of exemptions have grown year by year more numerous. The initial 1909 tax exempted only corporations falling in types 1, 2, 4, and 8. Substantially each following revenue act has enlarged the number of exemptions or broadened existing types. Thus the 1913 act added types 3, 5, 7, 9, and 10, and added the clause "scientific" to type 8. The 1916 act added types 6, 12, 14, 15, 16, 17, 18, and 21. The Revenue Act of 1924 added types 11 and 13. The Revenue Act of 1928 added types 22 and 23. In only a few instances have efforts at specific exemption

[1] At least 85 percent or more of their income must be collected from members for the sole purpose of meeting losses and expenses.

[2] Ibid.

[3] This provision, coupled with the special deduction allowed by sec. 207 (c) (3) of the Internal Revenue Code, has been so broadly construed by the courts and tax administrators as to afford complete tax exemption to all mutual insurance companies other than life. See *Commissioner* v. *National Grange Mutual Liability Co.*, 80 F. (2d) 316 (1935), holding exempt from Federal tax a company insuring in 10 States the members of the National Grange against liability arising from the use of automobiles.

[4] "An association which has capital stock will not for such reason be denied exemption (1) if the dividend rate of such stock is fixed at not to exceed the legal rate of interest in the State of incorporation or 8 percent per annum, whichever is greater, on the value of the consideration for which the stock was issued, and (2) if substantially all of such stock * * * is owned by producers who market their products or purchase their supplies and equipment through the association." Nor is the exemption precluded by "the accumulation and maintenance of a reserve required by State statute, or the accumulation and maintenance of a reasonable reserve or surplus for any necessary purposes, such as to provide for the erection of buildings and facilities required in business or for the purchase and installment of machinery and equipment or to require indebtedness incurred for such purpose." Regulations 103, art. 101 (12)-1.

[5] The foregoing footnote also applies to this exemption. It should be observed that "cooperative organizations engaged in occupations dissimilar from those of farmers, fruit growers, and the like, such as marketing building materials, are not exempt." Op. cit.

[6] Internal Revenue Laws (1939), sec. 101. Also see generally art. 103 of Regulations 101. The above list may superficially appear numerically more extensive than the exemptions listed in the code, since each type of exemption was listed separately, although a single code paragraph may cover several types.

been defeated, as an attempt in 1921 to exempt corporations organized to promote cooperative home ownership,[7] an attempt in 1926 to exempt mutual dairy loan associations,[8] and an attempt in 1936 to exempt water-users' associations operating Federal reclamation projects.[9]

The surtax on undistributed profits imposed by the Revenue Act of 1936 specifically exempted from its provisions banks, insurance companies, joint-stock land banks, China Trade Act corporations, corporations in bankruptcy or receivership, foreign corporations, and corporations operating in the Territorial possessions of the United States.

Obviously not all of these exemptions are of equal importance. Some exemptions are found in substantially every tax law, for example, the exemption in favor of religious, charitable, scientific, literary, and educational institutions. Other exemptions reflect the strong pressure of special interests. The major exemptions are probably the agricultural marketing and purchasing "cooperatives" and mutual insurance companies other than life.

STATUTORY EXEMPTION OF MINIMUM NET INCOME

The original Corporation Excise Act of 1909 applied only to corporate net incomes above $5,000. This exemption of the initial $5,000 of net income remained in effect during the life of the excise tax, expiring in March 1913, when the first income tax under the sixteenth amendment was adopted. The 1913 Revenue Act contained no provision exempting a minimum amount of corporate net income, although such an exemption was allowed in the case of natural persons. The excess-profits tax of 1917 reintroduced the concept of a minimum amount of corporate net income free from Federal taxation by exempting the first $3,000 of corporate profits from its provisions. The 1918 Revenue Act contained an exemption of the initial $2,000 corporate net income from the ordinary income tax. In 1921 this exemption of $2,000 was restricted to corporations having net incomes under $25,000. In 1928 the amount of the exemption was raised to $3,000, at which level it remained through the taxable year 1931. The Revenue Act of 1932 repealed this provision and since that time all corporate profits in excess of statutory deductions and credits have been subject to Federal tax without any flat exemption.

At the time of its original introduction into the 1909 act the exemption was severely criticized by Senator Elihu Root, whose view in this respect was essentially reiterated by Secretary of the Treasury Ogden Mills during the consideration of the 1932 Revenue Act by the House Ways and Means Committee.[10] That this exemption of a basic minimum of corporate net income was designed to favor small enterprise—insofar as identified with corporations having small net income—is fairly clear from legislative record and from such statistical data as are at hand on the operation of the exemption. Obviously the factor of administrative convenience (eliminating the numerous tax returns of corporations with small income) was a relevant considera-

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[7] See Cong. Rec., 61: 7184–7186.

[8] 69th Cong., 1st sess., House report. p. 36.

[9] See Cong. Rec., 80: 9098.

[10] "I never knew of any justification in principle for that exemption." Hearings on Revenue Revision 1932, p. 22. The remarks of Senator Root may be found in Cong. Rec. 44: 4004.

tion, but this factor certainly did not account for the exemption originally, nor is it believed to have played any important role since 1921, when the exemption was limited to corporations with net incomes under $25,000.

The Blakeys in their history of The Federal Income Tax cite a contemporary and dire warning by Senator Hale that—

> if amendments did not provide for exemption [of small corporations], representatives of hundreds of small corporations would swoop down on Washington and not only make things miserable for Senators and Representatives but get up such an agitation against the corporation tax that general tariff legislation itself would stand in danger of defeat.[11]

An amendment relieving all corporations with net incomes under $5,000 (the specific amount of the exemption) from submitting detailed tax returns to the Bureau of Internal Revenue, upon the filing of an informal affidavit stating that net income was less than $5,000, was decisively defeated.[12]

Statistical data on the operation of this specific exemption are unfortunately available only in a rather indirect manner and for only a single year (1931). These data permit computations by size classes and industries of the effective rate of the Federal corporation income tax (i. e., tax as percentage of net income after all deductions, including prior years' losses and credits for interest on Government obligations and intercorporate dividends). The precise number of corporations claiming the $3,000 exemption can, unfortunately, not be known by size classes, since size of assets and size of net income are not invariably correlated.[13] Since the statutory income-tax rate on corporations in 1931 was flat, lower effective tax rates for certain size classes indicate that corporations in such size classes made substantial use of the specific credit of $3,000 and the difference between the effective rate and the statutory rate of 12 percent can be taken to show the quantitative significance of the exemption to corporations of varying size classes.

From these data it is apparent that the specific credit for $3,000 operated to reduce the statutory tax rate on manufacturing corporations with assets under $50,000 by approximately 300 percent (effective rate of 3.4 percent, as compared with the statutory rate of 12 percent). See chart IV. In other industries the role of the exemption was even greater, as in trade, construction and finance, while the exemption was of slightly less importance to public utilities and service, and was of least importance in mining where the exemption operated to reduce the statutory effective rate by one-half. Among the manufacturing industries the exemption played a very important role in depressing the statutory tax rate on the smallest corporations in stone, clay, glass, textiles, forest products, printing, and metals. The effect of the exemption was largely limited to corporations with assets under $250,000 (except in finance and forest products where corporations with assets from $250,000 to $500,000 were visibly affected). No substantial depressing effect can be noted in the case of corporations with assets over $1,000,000.

The 1932 repeal of the exemption of the initial $3,000 resulted in very substantial increases in the effective tax rates on small corporate

[11] P. 46n.

[12] Cong. Rec., 44: 4235–4236.

[13] For a frequency distribution of corporation income-tax returns classified by size of net income (or deficit) and total assets in 1936, see Statistics of Income for 1936, pt. 2, pp. 42–43, 167–183.

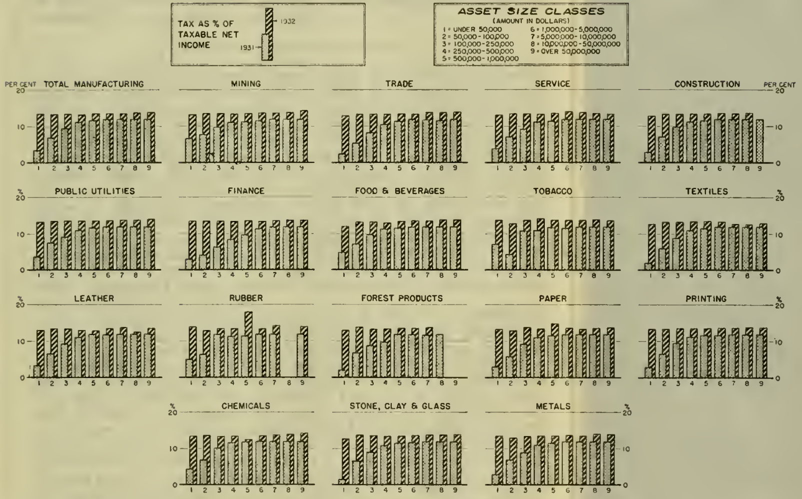
CHART IV

EFFECT OF 1932 ABOLITION OF MINIMUM INCOME EXEMPTION

BY SIZE CLASSES AND MAJOR INDUSTRIES

1931-1932

(NET-INCOME CORPORATIONS ONLY)



SOURCE:- COMPUTED FROM THE SOURCEBOOK OF THE STATISTICAL SECTION OF THE BUREAU OF INTERNAL REVENUE
Department of Commerce

enterprise, in many cases the effect being very drastic. Any comparison of the effective tax rates for 1931 and 1932 must take into account the change in the statutory rate between the 2 years, which was raised from 12 percent in 1931 to 13¾ percent in 1932, an increase in 1932 of 14½ percent over the 1931 statutory rate. This slight increase in the statutory rate is substantially mirrored in the 1932 increase in the effective tax for corporations with assets over $250,000. The effective tax rates of the small corporations (i. e., with assets under $50,000), however, more than quintupled between 1931 and 1932, in the case of manufacturing, trade, and finance. The rate on mining doubled, while the rates for construction and public utilities increased more than fourfold. In other words, the heaviest increase in Federal corporate income taxation during the course of the depression fell on the smallest corporations.

STATUTORY RATE STRUCTURES

Throughout the larger period during which the Federal Government has taxed corporation profits, the statutory rate structure has been flat and not graduated, in contrast to the rate structure of the individual income tax which has been graduated since its inception under the sixteenth amendment. There have been, however, proponents of a steeply-graduated tax in corporation profits ever since 1900 and possibly before. When the 1909 act was passed a valiant attempt was made to graduate the rate structure on corporate tax without success.[14] The war excess-profits tax of 1917–21, the purpose and effect of which was entirely different from the ordinary corporate income tax,[15] contained a steeply graduated rate structure consisting of five brackets ranging from 20 to 60 percent of the income in excess of the presumed norm. The Revenue Act of 1924 as it passed the Senate contained a steeply graduated rate structure, but this provision was eliminated by the House.

The imposition of a slight penalty tax in 1932 on interaffiliated corporations filing consolidated income tax returns may perhaps be cited as an indirect attempt to penalize one sort of bigness, since the corporations making use of the consolidated returns device tended to fall in the larger-size classes. But this discriminatory tax, which was very slight in character (three-fourths of 1 percent in 1932 and 1 percent in 1933), was designed primarily to offset the undoubted tax advantages of corporations making use of the consolidated returns device. From one point of view, the whole technique of permitting consolidated returns, with or without a penalty tax, may rather be cited as a tax device for favoring large and complex corporate systems by specially adapting tax procedure to their needs. This last observation, however, is a controversial point and need not be insisted upon in this connection,[16] although it was clearly pointed out by Mr. Robert Jackson, then of the Bureau of Internal Revenue, during the congressional hearing on the 1935 Revenue Act.[17]

[14] Cf. a proposal by Senator Hitchcock for "an additional graduated income tax of 5 percent on all corporations having $100,000,000 capital or more, provided they control 25 percent of the production of any article in the United States," and a tax of 15 percent where the control exceeded 33⅓ percent. See Cong. Rec., 50: 2020.

[15] See appendix A.

[16] See the following chapter.

[17] See Hearings on the Revenue Act, 1935, before the Senate Finance Committee, 74th Cong., 1st sess., pp. 223–236.

It was however, during the consideration of the 1935 Revenue Act that corporate size emerged as the focal problem of Federal tax reform. A special message was transmitted by President Franklin D. Roosevelt on June 19, 1935, calling attention to the advantages possessed by large corporations,[18] and recommending the enactment of a graduated tax rate structure ranging from 10¾ percent on the net incomes of smaller corporations up to 16¾ percent on the net incomes of the largest corporations. The President also recommended the imposition of a tax on dividends received from domestic corporations, a source of corporate profits which had previously been exempt of taxation, except during a short period under the income tax acts of 1913–16. The resulting Revenue Act of 1935 introduced two new features into the Federal corporation income tax system: (*a*) A slight graduation of tax rates (ranging from 12½ to 15 percent) according to the size of corporate net incomes which where made subject to tax and (*b*) the partial taxation of intercorporate dividends (equivalent at most to 1.5 percent tax on all dividends received). Neither of these provisions became effective in this precise form since the Revenue Act of 1935 was not scheduled to become operative until 1936 and by that time a new revenue act had been adopted.

Size continued to be a focal feature of the 1936 Revenue Act. As originally conceived in the President's message sent to Congress on March 3, 1936, and to a substantial extent as drafted in the House bill the new tax plan contemplated the outright abolition of all existing Federal taxes based on or related to corporate profits—i. e., the normal tax, the capital-stock tax, and the excess-profits tax—and the substitution therefor of a new tax of a graduated character on that part of "corporate income (including dividends from other corporations) which is not distributed as earned * * *."

The Senate, however, was reluctant at one stroke to abandon existing Federal taxes on corporate profits—the normal tax on corporate income being highly productive from a revenue viewpoint. The House bill was therefore drastically amended by the Senate: All existing taxes on corporate profits were retained with some modifications (as noted below) and superimposed thereupon was a new surtax on the undistributed profits of corporations. The new surtax contained a severely graduated rate structure, ranging from 7 to 27 percent of that portion of corporate profits which was not distributed during the year as taxable dividends.

The normal tax was modified by (a) limiting the credit for intercorporate dividends to 85 percent instead of the 90 percent allowed by the 1935 act and the 100 percent credit allowed under previous acts (equivalent at most to a tax of 2.25 percent on all dividends received)

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[18] Mr. Robert Jackson, as Assistant General Counsel of the Bureau of Internal Revenue, listed these advantages as follows:

"(1) As buyers of commodities and services, the large volume of their purchases gives the larger corporations a bargaining power that often results in price concessions which smaller concerns do not share.

"(2) Through widely distributed branch plants and warehouses they are able to effect important savings in transportation costs and to sell in a Nation-wide market.

"(3) Their large resources enable them to buy up important patents, often to pool these patents with those obtained by other large enterprises, and to carry on research programs, the fruits of which, while of public as well as private benefit, accentuate their competitive advantages over their smaller rivals.

"(4) In many cases large concerns have become of such dominating size that they are able to control the markets for their products, enabling them to maintain prices that protect their profit margins.

"(5) Large corporations possess distinct advantages over their smaller competitors in the facility and cost of financing, for they are able to tap the large reservoirs of capital that are made available through the organized financial markets."

Ibid., pp. 216–217.

and (b) increasing the range of the graduated rate structure from 8 to 15 percent instead of the narrower range specified by the 1935 act from 12½ to 15 percent. (The actual efficacy of this slight graduation in the rate structure of the Federal normal corporation income tax will be examined in detail in chapter IV.) These provisions remained in effect through 1937. The rate structure of the excess-profits tax was also modified by the 1936 act, which changed it from a flat rate of 5 percent on that portion of corporate income which exceeded 12½ percent of the declared value of capital stock, to a tax at 6 percent and 12 percent of income in excess of 10 percent and 15 percent, respectively, of declared capitalization. It should be pointed out that the Senate amendment of the President's tax plan and the House bill completely defeated one of the major purposes claimed for the undistributed-profits tax—the equalization of business-income taxes between corporate and noncorporate enterprise.

The accumulation of criticism against the tax on undistributed profits led Congress to all but repeal the tax in 1938, retaining only a small stump of a tax at 2½ percent of the undistributed profits of corporations with net income in excess of $25,000. In the 1939 act (applicable to 1940) the surtax on undistributed profits was completely abandoned.

The graduated features of the normal tax under the 1936 Revenue Act were also relaxed to some extent by the 1938 act. A flat-rate tax at 16½ percent was imposed on all corporations with net income over $25,000, while corporations with net income below this amount were subject to a tax ranging from 12½ to 16 percent of net income. Under the 1938 act the range in the graduated rates under the normal tax was only from 12½ to 16 percent, or a variation of 3½ percent, while the rate graduations under the 1936 act ranged from 8 to 15 percent, or a 7 percent variation. With the abandonment of the surtax in the 1939 act, the flat-rate tax of 16½ percent of the 1938 act was raised to a flat rate of 18 percent on all corporations with net income over $25,000. The graduated range from 12½ to 16 percent for corporations with net income under $25,000 was retained by the 1939 act. The degressive rate structure of the normal tax of the 1938 and 1939 Revenue Acts is somewhat comparable to the exemption of the initial $3,000 of net income allowed corporations with net income under $25,000 prior to 1932.

Before the Revenue Act of 1935 the Federal corporate income tax applied to all industries at the same statutory rate, with a single exception during the late twenties when insurance companies were taxed at lower rates. Provided that the corporation was not tax-exempt (supra) and had taxable net income (infra), it was subject to a Federal tax on its taxable net income at a flat rate, irrespective of the nature of its industrial activities. The advent of a graduated rate structure, however, did not affect insurance companies, banks and trusts, and China Trade Act corporations, which were taxed at the maximum rate (15 percent), irrespective of the magnitude of net income. This policy of imposing the maximum normal tax rate (which thus became a flat rate) on certain members of the financial group of corporations has continued under the Revenue Acts of 1938 (16½ percent) and 1939 (18 percent).

DEDUCTIONS FROM CORPORATE GROSS INCOME

The profits upon which corporations are required to pay taxes to the Federal Government are essentially residual figures, being the amount remaining out of corporate gross income after the statutory deductions have been taken by the taxpayer and allowed by the tax collector. These deductions vary in amount and in their relative significance to different types of corporations, reflecting differences in the cost and capital structures of corporations as well as in the accounting skill and the adequacy of corporate records. Methods of valuating inventories play an important role in determining the scope of "cost of goods sold" claimable in various industries and therefore the amount of taxable net income remaining out of gross income.[19]

In the case of certain deductions (e. g., percentage depletion and the special 4 percent reserve deduction of life insurance companies) the primary purpose has been to favor or specially adapt the tax laws to the needs of particular industries. In other cases the deductions have shown distinct tendencies to operate differently for corporations of various sizes and in different industries. So far as the record shows there has been no conscious design of adapting the amount and types of deductions to the needs of corporations of varying size—aside from the specific credit of $2,000 to $5,000 noted above in this chapter. But this negative fact does not gainsay the fact that in practice what may have been intended as a uniform deduction has operated quite differently in the case of small corporations than in the case of large corporations, and vice versa.

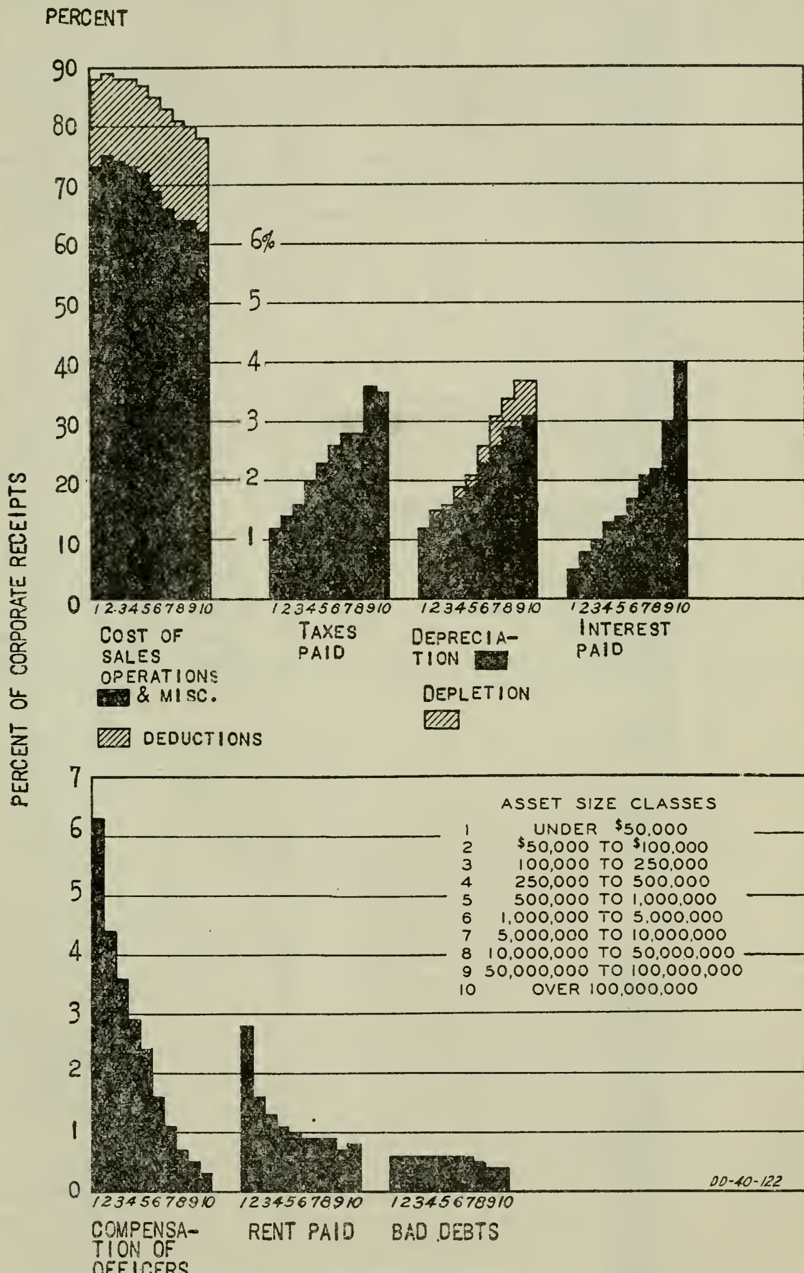
Chart V shows graphically statutory deductions claimed by corporations of various sizes in 1937. Each pyramid is divided into 10 sectors, 1 for each corporate size class (identified as Nos. 1–10), with the small corporations on the left, the large corporations on the right, and the medium-sized corporations in between. The height of any given sector indicates the relative magnitude of the deduction, measured as percent of total corporate receipts. A pyramid sloping downward to the right indicates an inverse relationship between the magnitude of the deduction and corporate size, while a pyramid sloping upward from the left indicates a direct relationship between the deduction and corporate size. A fairly even pyramid sloping in neither direction indicates that there appears to be no relationship between the relative magnitude of the deduction and corporate size. An initial upward slope from the left and a final downward slope to the right—forming a hump in the middle of the pyramid—indicate that the deduction was most important to the medium-sized corporations.

Taking all corporations as a group (including net income and deficit corporations) in 1937, these primary expense items—tabulated as cost of goods sold and operations and including primarily the costs of materials and labor—took approximately 72 to 75 percent of the total receipts of corporations with $1,000,000 or less, 66 to 69 percent of the receipts of corporations with assets between $1,000,000 and $10,000,000, 64 percent of the receipts of corporations with assets from $10,000,000 to $100,000,000, while the corporations with assets

[19] Cf. Internal Revenue Laws, sec. 22 (c) and (d). No empirical data appear to be available on this subject. Prior to the 1939 Revenue Act the "last-in-first-out" method of determining inventories was available only to farmers and producer-processors of certain nonferrous metals. Internal Revenue Code, sec. 22 (d). Also see Regulations 103, art. 22 (c) and (d), citing specific rules for dealers in securities (5), livestock raisers and other farmers (6), miners and manufacturers (7), and retail merchants (8). Section 219 of the 1939 act made this method generally available, irrespective of industry.

CHART V

STATUTORY DEDUCTIONS FROM CORPORATE RECEIPT BY SIZE CLASSES, 1937 (ALL CORPORATION INCOME TAX RETURNS WITH BALANCE SHEETS)



Source: Computed from Statistics of Income.
Department of Commerce.

over $100,000,000 claimed only 62 percent of their receipts as deductions for cost of goods sold and operations. Substantially this same pattern of an inverse relationship between the deductions for cost of goods and operations and corporate size was found for substantially all industries in 1936 except in service and construction where the larger size classes reported the peak percentages. As cost of materials becomes less important, the sales-operating cost deduction declines in relative magnitude—for example, mining and public utilities where the deduction (largely labor cost) accounted for 50–60 percent of total corporate receipts. In service, where the deduction consists primarily of labor cost, it constituted only one-third of total receipts and in fact was less important than several of the other deductions.

The specific deductions for interest paid, depreciation and depletion, and taxes paid—all in the nature of "overhead costs"—tend to vary directly with corporate size and thus offset in part the inverse size tendency for the primary expense items. The relative amount of interest paid on borrowed capital rises from one-half of 1 percent of the total receipts of corporations with assets under $50,000 and reaching 4 percent of the total receipts of corporations with assets over $100,000,000. It is obvious, then, that this deduction for interest paid, which largely consists of payments to bondholders (i. e., creditor-investors in contrast to stockholders or equity investors), is a very important deduction to the large corporations.[20]

When these size variations of the interest deduction are analyzed industry by industry (see chart VI) however, the neat pattern of a step-by-step graduation with corporate size tends to disappear in several industries. In manufacturing industries (except forest products, paper, and printing), trade, and construction, the size variation is so slight in magnitude that it is difficult to observe any association of the relative magnitude of interest payments with corporate size.

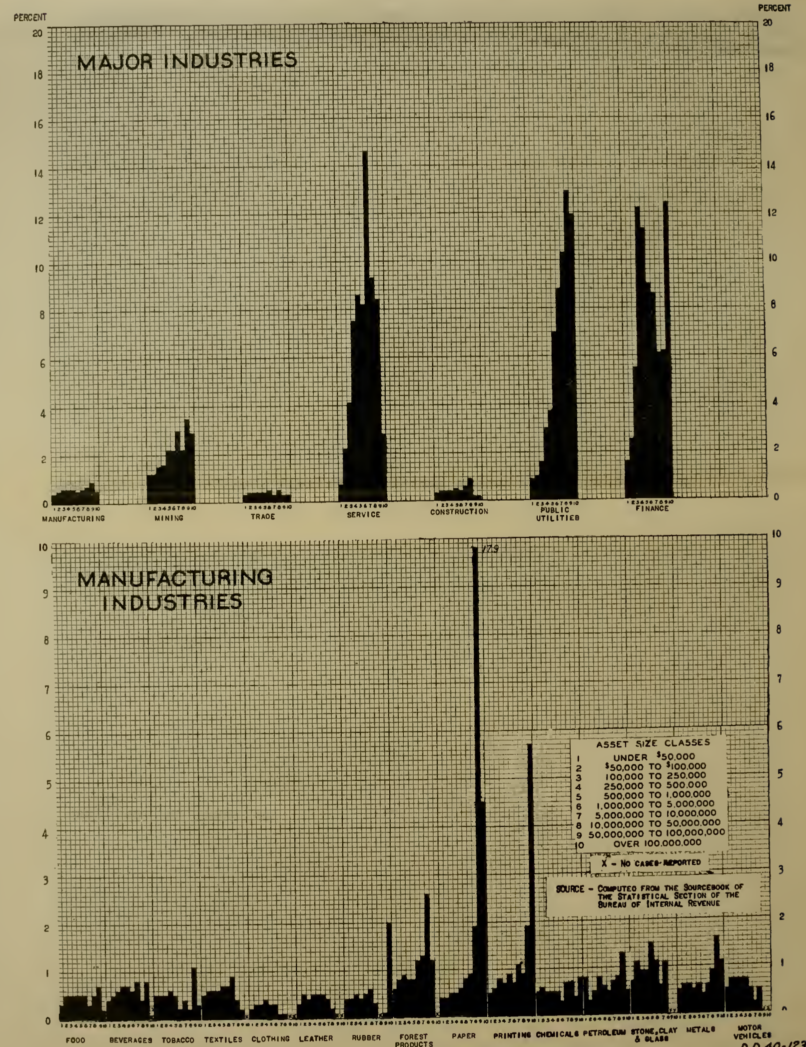
The size variation of the interest deduction is more pronounced among public utilities and mining where the largest corporations claim the relatively largest interest deductions. The service industries exhibit a somewhat erratic size pattern, with the interest deduction tending to increase rapidly with corporate sizes up to and including the seventh size class (assets $5,000,000 to $10,000,000)—which includes many hotels, office buildings, and theaters whose debt structure has been notoriously heavy—and then tending to decline sharply in magnitude among the largest size classes. The interest pattern for finance is similarly erratic, being very important to corporations in the fourth and fifth size classes (with assets from $25,000 to $1,000,000) and in the tenth size class (assets of $100,000,000). The hump in the pattern caused by the fourth and fifth size classes is explainable partly by the fact that these size classes probably include a large number of real estate holding corporations somewhat similar in debt structure to the service corporations already noted.

The charges for depreciation and depletion, like the deduction for interest, vary directly with corporate size when all corporations are viewed as a group, ranging in relative magnitude from 1.2 to 3.7 percent. See chart VII. The highly specific character of the depletion

[20] The statutory vicissitudes of this deduction are related, infra, pp. 91–92.

CHART VI

INTEREST PAID AS PERCENT OF CORPORATE RECEIPTS, BY SIZE CLASSES AND INDUSTRIES, 1936 (ALL CORPORATION INCOME TAX RETURNS WITH BALANCE SHEETS)



deduction [21] makes it of substantial importance only to the extractive industries—mining, forest products, petroleum and stone, clay, and glass—and of very negligible importance in the remaining industries. A special 50 percent depletion allowance [22] may be claimed by the discoverers of oil and gas wells. The direct variation between the charges for depreciation-depletion and corporate size may be in part a reflection of the nature of the masurement of size which is based on assets, including, to an increasing degree as corporate size increases, capital equipment upon which depreciation is customarily charged.

When these figures are broken down industry by industry the general pattern is verified except in trade, where no size variation is apparent, and in construction where the pattern is very erratic. Depreciation is shown to be of primary importance to public utilities, and, in close succession, service and again mining, with finance, manufacturing, construction, and trade trailing behind. Manufacturing industries closely parallel the depreciation percentage shown for manufacturing as a whole, with the notable exception of petroleum and clothing, where depreciation is respectively more and less important than in manufacturing as a whole. It is interesting to observe that in several cases the peak deduction tends to come in the eighth and ninth size classes (assets from $5,000,000 to $50,000,000) rather than in the largest size class. The same pattern is also found in most manufacturing industries except for beverages, tobacco, leather, and printing, for which little or no size variations were noticeable.

The deduction for taxes paid [23] as cost factor is relatively more important to the larger corporations than to the smaller or medium-sized corporations, in keeping taxable net income at a minimum. Taking all corporations together, the pattern exhibits a nice step-by-step graduation ranging from 1.2 percent in the smallest size class (assets under $50,000) to 3.5 percent in the largest size classes (assets over $100,000,000). When figures are broken down industry by industry, this same pronounced pattern is found for public utilities among the major industries and for rubber, forest products, paper, printing, and metals among the manufacturing industries. In manufacturing the peak rates are still contributed by the larger size classification, although not by the very largest. In finance the medium-sized corporations reported the highest percentages, while substantially no size variation could be found for trade and construction corporations. The high percentages for beverages, tobacco, rubber, and petroleum corporations reflect the special taxes to which these manufacturing industries are subject.

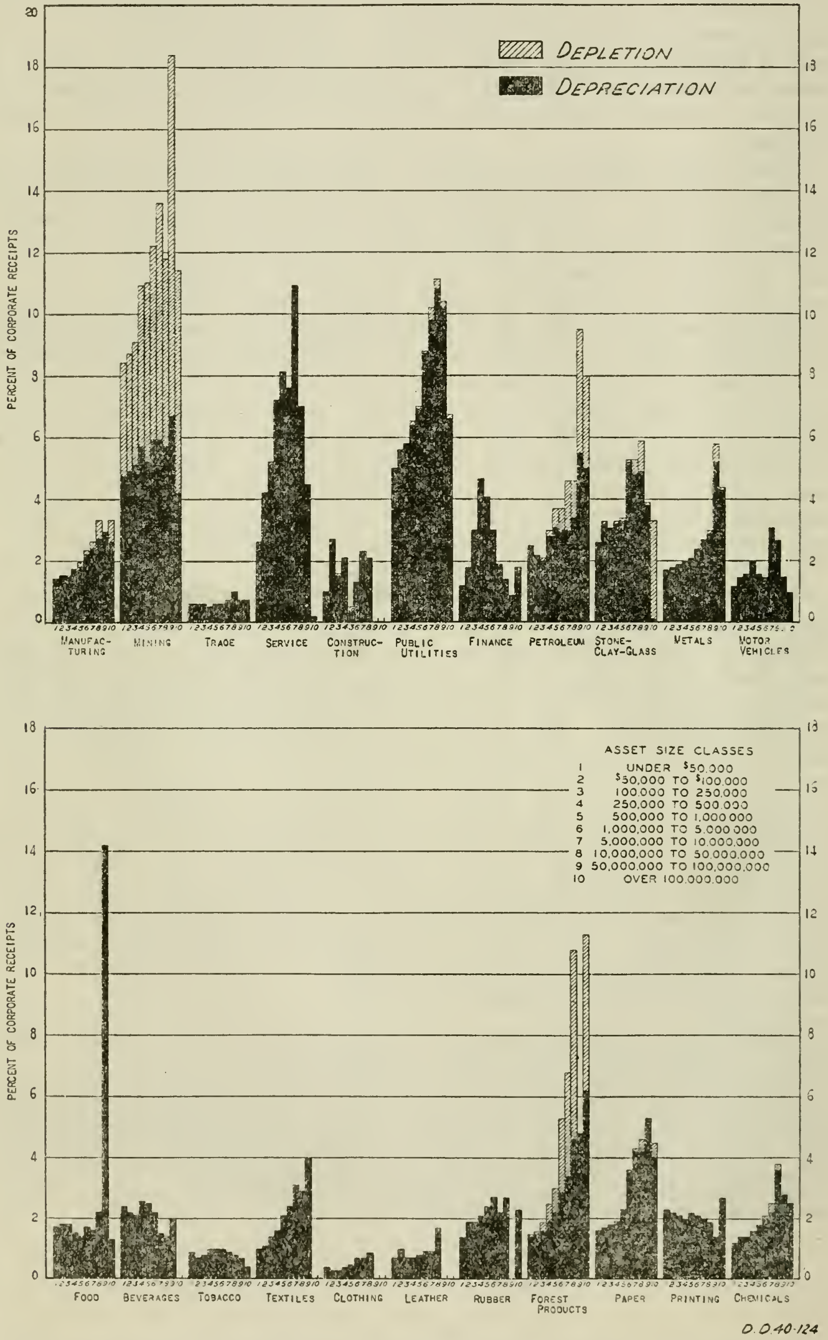
[21] Depletion was not originally allowed as a deduction until 1913 when the first revenue act under the sixteenth amendment specifically listed depletion. See *Stratton's Independent Ltd.* v. *Hawbert*, 231 U. S. 399 (1913). Cf. *Doyle* v. *Mitchell Bros. Co.*, 247 U. S. 179 (1918).

[22] See Internal Revenue Laws (1939), sec. 114b. This special depletion deduction was introduced by sec. 234 (a) (9) of the 1918 Revenue Act (actually enacted in 1919) to encourage the discovery of new oil and gas wells. All discoverers of oil and gas wells on or after March 1, 1913, may claim an "extraordinary basis" for the depletion deduction, predicated "upon the fair market value of the property at the date of the discovery" instead of original cost. In 1921 the discovery basis of depletion was so limited that the deduction could "not exceed the net income computed without allowance for depletion" and in 1924 the special depletion deduction was further limited ("not exceed 50 percent of the net income").

[23] The content of this item is not accurately known at present, although property and pay-roll taxes are believed to constitute a major portion of the deduction.

CHART VII

DEPRECIATION AND DEPLETION AS PERCENT OF CORPORATE RECEIPTS, BY SIZE CLASSES AND INDUSTRIES, 1936 (ALL CORPORATION INCOME TAX RETURNS WITH BALANCE SHEETS)



Source: Computed from the Sourcebook of the Statistical Section of the Bureau of Internal Revenue. Department of Commerce.

Complementary to the deduction of taxes paid is that for rent, which is a necessary expense item for all corporations that do not own their premises and therefore pay no real property taxes (presumably an important ingredient of the "taxes paid" deduction). The rent deduction bears an inverse relationship to corporate size, steadily decreasing in relative magnitude as corporate size increases. This general pattern for all corporations is found for substantially all industries except trade (highly erratic). The rent deduction is particularly important to the service industries, with finance and trade trailing in third place. Rent is obviously unimportant in mining and of only minor importance to public utilities, construction, and manufacturing—for the simple reason that these industries are characterized by high degrees of ownership of operating properties. The complementary relationship of the deduction for rent paid to the deduction for taxes paid was probably greater in the past when property taxes were the main component of the tax, but this relationship may be expected to diminish as nonproperty taxes (e. g., pay rolls) increase in importance.

The most important specific deduction to the small corporations is that for compensation of officers. This deduction shows a most marked size pattern of an inverse character, ranging from 6.3 percent for corporations with assets under $50,000 to less than one-third of 1 percent in the case of corporations with assets over $100,000,000. This step-by-step graduation downward in the relative magnitude of the deduction as corporate size increases is characteristic of all industries except finance (where corporations with assets from $250,000 to $1,000,000 report relative high percentages). The importance of the deduction to the smaller corporations, however, can be easily overemphasized, if it is measured only in relative terms (as percentages of total corporate receipts) and without reference to the actual dollar amounts involved. The average dollar amount claimed per corporation as a deduction for compensation of officers is very small—$3,000, $5,500, $7,300, and $9,600, respectively, for corporations in the four smallest size classes. Assuming two or three officers per corporation, it is apparent that the amount of compensation of officers claimed as a deduction is more like wages than a hidden return on capital.[24]

The deductions for bad debts and capital losses are very minor in amount, appearing relatively larger for the medium-sized corporations than for either the largest or the small corporations. The deduction for bad debts is of substantially no significance to mining, manufacturing, and public utilities, and of only minor significance to service, construction, and trade. In this respect the deduction for bad debts parallels the deduction for depletion—it is adapted to the special operating characteristics of a particular industry—namely, credit and its failure. The reason for this particular size variation of the deduction of capital losses lies in the essentially artificial or limited character of the statutory deduction, which may not exceed $2,000.[25] In most industries other than finance and construction the deduction for capital loss is very negligible, and if found at all (usually not more than

[24] In the absence of a frequency distribution of the amount of compensation claimed per officer per corporation, it is not possible to characterize the deduction in more detail.

[25] This restriction has been substantially relaxed by the 1939 Revenue Act, sec. 212, which permits the full deduction of "long-term capital losses," while "short-term capital losses shall be allowed only to the extent of short-term capital gains," with a carry-over of the same to the succeeding taxable year. "Short term" loss or gain had been previously defined in the Internal Revenue Code (see 117 (a)) as referring to the loss or gain "from the sale or exchange of a capital asset held for not more than 18 months * * *."

one-tenth of 1 percent of total receipts) was usually claimed by the small- and medium-sized corporations.

The residual content of "other deductions" deprives this item of much of its importance standing by itself. As defined in Statistics of Income, it presumably includes (1) repairs (including labor), (2) losses by fire and storm, abandonment of property, etc., (3) labor costs not elsewhere deducted, (4) worthless stock, and (5) a miscellany of other deductions claimed (irrespective of their final validity under the law). This miscellany may include advertising costs, commissions, professional services, heat, light and power, telephone and telegraph, etc. A substantial part of the residual deduction in finance, especially in the largest size class, reflects the special 4-percent reserve deduction allowed insurance companies.[26]

When the Corporation Excise Tax Act of 1909 was passed and also when the general income tax of 1913 was under consideration, valiant attempts were made completely to exempt insurance companies from Federal taxation,[27] and were quite successful with respect to mutual companies other than life.[28] Life-insurance companies, however, were granted by the 1909 act (sec. 38 (2d)) a special deduction for "the net addition, if any, required by law to be made within the year to reserve funds." No deduction or credit, it should be pointed out, was originally permitted for interest received on governmental obligations, although such income was made tax-exempt as of March 1913.

Failure to specify the nature and extent of this special insurance deduction led to constant litigation, the consequences of which were satisfactory to neither the tax collector nor to the insurance companies. "After much consideration, Congress, upon consultation with the life insurance companies and with the approval of at least most of them"[29] (including the Association of Life Insurance Presidents), specified a flat percentage (4 percent) reserve deduction in the Revenue Act of 1921, subject to a very important proviso—namely, the 4-percent reserve deduction should be reduced by the amount of the credit claimed for interest received on tax-exempt securities. This proviso was declared unconstitutional by the Supreme Court in a 6–3 decision in *National Life Insurance Co.* v. *United States.* Mr. Justice McReynolds, speaking for the majority, declared that such a proviso—

> would destroy the guaranteed exemption. One may not be subjected to greater burdens upon his taxable property solely because he owns some that is free. No device or form of words can deprive him of the exemption for which he has lawfully contracted.[30]

The minority, which consisted of Justices Brandeis, Stone, and Holmes, defined the issue somewhat differently:

> * * * the objection is not that the plaintiff [insurance company] is taxed on what is exempt, but that others, who do not hold tax-exempt securities, are not taxed more. But neither the Constitution, nor any act of Congress, nor any contract of the United States, provides that, in respect to this tax, a holder of tax-exempt bonds shall be better off than if he held only taxable securities * * * . * * * no rule is better settled than that provisions for tax exemption, constitutional or contractual, are to be strictly construed.[31]

[26] Internal Revenue Laws (1939), sec. 203.

[27] See Congressional Record, 44: 3980–3981, 4020–4021, 4039, 4053–4055; 50: 1304–1305, 1310–1311, 3802–3803. 3804. Also see the hearings before the Senate Finance Committee on the 1913 Income Tax Act, pp. 1964–2140,

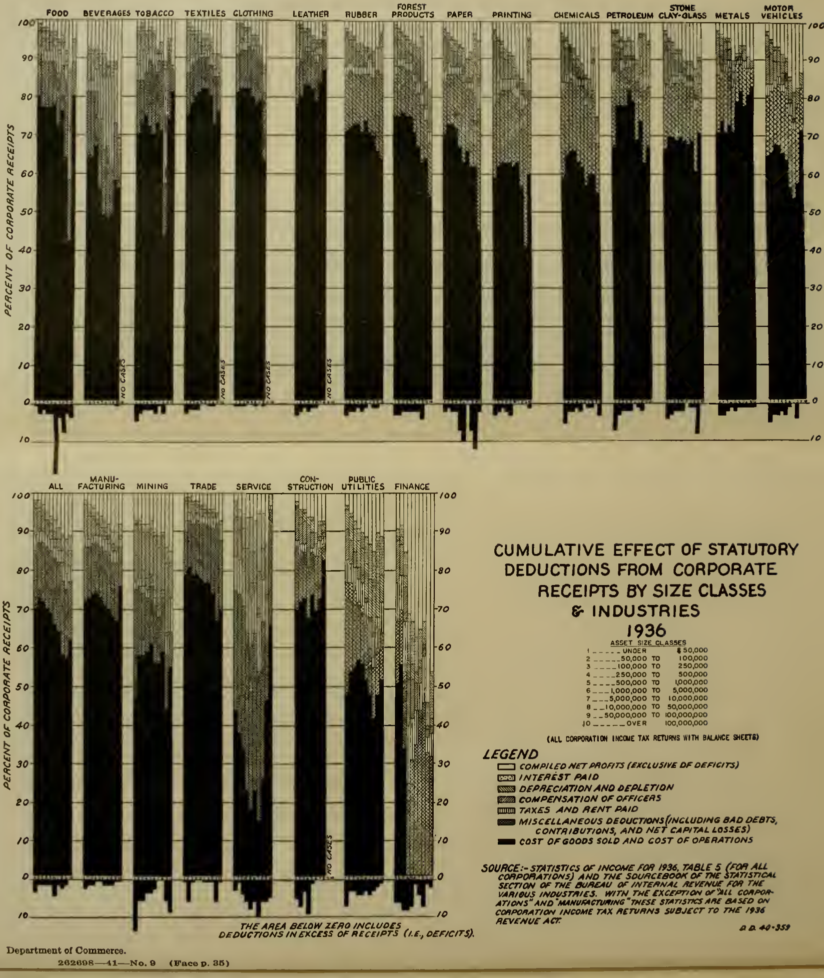
[28] Supra, p. 22.

[29] Dissenting opinion of Mr. Justice Brandeis in *National Life Insurance Co.* v. *United States*, 277 U. S. 508 (1928), at p. 523.

[30] Ibid., at p. 519.

[31] Ibid., pp. 528, 533. "There is a distinction between imposing a burden and withholding a favor." At p. 536.

CHART VIII



FOOD
BEVERAGES
TOBACCO
TEXTILES
CLOTHING
LEATHER
RUBBER
FOREST PRODUCTS
PAPER
PRINTING
CHEMICALS
PETROLEUM
STONE CLAY-GLASS
METALS
MOTOR VEHICLES
NO CASES
PERCENT OF CORPORATE RECEIPTS
ALL
MANU-FACTURING
MINING
TRADE
SERVICE
CON-STRUCTION
PUBLIC UTILITIES
FINANCE
THE AREA BELOW ZERO INCLUDES DEDUCTIONS IN EXCESS OF RECEIPTS (I.E., DEFICITS).
CUMULATIVE EFFECT OF STATUTORY DEDUCTIONS FROM CORPORATE RECEIPTS BY SIZE CLASSES & INDUSTRIES
1936
ASSET SIZE CLASSES
1 ----- UNDER $50,000
2 -----50,000 TO 100,000
3 ----100,000 TO 250,000
4 ----250,000 TO 500,000
5 ----500,000 TO 1,000,000
6 ---1,000,000 TO 5,000,000
7 ---5,000,000 TO 10,000,000
8 --10,000,000 TO 50,000,000
9 --50,000,000 TO 100,000,000
10 ------OVER 100,000,000
(ALL CORPORATION INCOME TAX RETURNS WITH BALANCE SHEETS)
LEGEND
COMPILED NET PROFITS (EXCLUSIVE OF DEFICITS)
INTEREST PAID
DEPRECIATION AND DEPLETION
COMPENSATION OF OFFICERS
TAXES AND RENT PAID
MISCELLANEOUS DEDUCTIONS (INCLUDING BAD DEBTS, CONTRIBUTIONS, AND NET CAPITAL LOSSES)
COST OF GOODS SOLD AND COST OF OPERATIONS
SOURCE:- STATISTICS OF INCOME FOR 1936, TABLE 5 (FOR ALL CORPORATIONS) AND THE SOURCEBOOK OF THE STATISTICAL SECTION OF THE BUREAU OF INTERNAL REVENUE FOR THE VARIOUS INDUSTRIES. WITH THE EXCEPTION OF "ALL CORPORATIONS" AND "MANUFACTURING" THESE STATISTICS ARE BASED ON CORPORATION INCOME TAX RETURNS SUBJECT TO THE 1936 REVENUE ACT.
D.D. 40-359

The result of this decision was to allow life insurance companies to claim, in addition to the deduction of or credit for all interest on tax-exempt securities and all dividends (only 85 percent since 1936) received from domestic corporations, a special deduction of 4 percent of the mean legal reserve fund. This deduction in its present form is practically tantamount to exemption of life insurance companies from Federal taxation. In 1937 the special reserve deduction of life insurance companies amounted to $775,000,000, while taxable net income amounted to $2,600,000. Only $392,000 were paid as taxes to the Federal Government by life insurance companies in 1937.

The cumulative effect of the various statutory deductions allowed under the Revenue Act of 1936 upon total receipts (shown as 100 percent) of corporations of varying size and in different industries is shown in chart VIII as a series of pyramids, each consisting of 10 sectors representing size classes (identified by Nos. 1–10). The chart was constructed by plotting at the top (starting downward from 100 percent) the amount of compiled net profits reported by corporations with net income as percent of total corporate receipts of all corporations. This item is followed by 6 main types of deductions—(1) interest, (2) depreciation and depletion, (3) compensation of officers, (4) taxes and rent paid, (5) miscellaneous deductions including bad debts, contributions, and net capital losses, and (6) cost of goods sold and cost of operations, each shown as percents of total corporate receipts. In several size classes total deductions exceeded total receipts, resulting in "deficits" instead of "profits". The "profits" figure (shown at the top of the diagram) excludes all deficit figures which appear at the bottom as that part of the item "called cost of sales and operations" which falls below (or on the negative side of) the zero line of the diagram.

Compiled net profits are defined as the excess of receipts over statutory deductions. It is therefore apparent that the smaller the profits area on the diagram (shown at the top of the chart), the greater was the cumulative effect of the various statutory deductions in converting corporate receipts into corporate profits. Conversely, the larger the profits area, the less the total effect of the various statutory deductions.

The relative magnitude of the aggregate statutory deductions from corporate receipts tends to vary inversely with corporate size. In other words, the cumulated deductions claimed by the smaller corporations are relatively larger than those claimed by medium-sized and large corporations. The size variation is relatively slight in trade, service, and construction corporations, while the size factor is quite marked in finance, public utilities, and mining corporations, with manufacturing corporations falling between the two groups. A similar observation can be made for the various manufacturing industries—the composite deductions are relatively largest on the small corporations and relatively smallest on the large corporations. The statutory deductions appear to have had the least effect upon the financial corporations, more than one-fourth of whose receipts remained (after subtracting all statutory deductions) as "compiled net profits." The deductions made the greatest imprint on trade and construction, only one-thirtieth of whose receipts remained after the statutory deductions had been allowed. The excess of receipts over deductions

was approximately one-tenth for public utilities and mining, one-fifteenth for manufacturing, and one-twentieth for service. The manufacturing industries exhibit numerous differences, with the chemicals and stone-clay-and-glass percentages ranging highest—consequently the composite deductions had lesser effect—and the clothing percentage ranging lowest—hence the composite deductions had greater effect upon the latter.

This residual figure of corporate profits is taken as the point of departure for the subsequent analysis of the effects of Federal income taxes upon corporations. Before proceeding with this question directly it is advisable to examine certain problems arising out of the definition of the accounting period for tax purposes.

DEFINITION OF THE ACCOUNTING PERIOD—DEDUCTION OF PRIOR YEARS' LOSSES

Empirical studies have shown that the profitability of corporations varies both with the size of corporations and the character of the industry. The rate of return on investment for those corporations which make profits in any given year tends to be higher for the smaller corporations, but over a period of time the larger corporations tend to have profits with greater frequency. In other words, the larger corporations seldom suffer large losses, whereas the smaller corporations lead a very uneven career with occasional profits of large magnitude and frequent intervals of losses.[32]

Some industries make profits every year, although the profits may seldom be large or a high rate of return on investment, while other industries experience wide yearly fluctuations in their profits. When they strike good they may make considerable profits, perhaps only to have that year followed by a series of lean years of deficits. If determined on the basis of a single year's operations and without reference to the corporation's experience in other years, it is apparent that the Federal income tax on corporations (or industries) with widely fluctuating income may operate somewhat differently from the tax on corporations whose income remains fairly steady in character during the course of years. Whenever they make profits they are taxed, and presumably taxed on the profits for that year. When they have losses, they file their income-tax returns with the Government, and that is presumably the end of that. It is obviously to their advantage for the revenue laws to take into account a longer time period than 1 year in determining their income and resultant tax liability, and presumably this advantage becomes more important with the length of the accounting period.

The definition of the accounting period used for determining taxable income is therefore of considerable relevance to the size problem in Federal corporate income taxation. Prior to 1933 and extending as far back as 1918, the Federal revenue acts permitted the deduction of operating losses in prior years from current income. The background out of which this provision emerged—as a "response of Congress to the hardships caused by the taxable year as a unit of time"—has been dramatically stated in *Hughes* v. *Commissioner*, as follows:

> Merchants and manufacturers, and other taxpayers employing capital in their pursuits, had paid large taxes in preceding years on paper profits. Their shelves

[32] See Edwin B. George and Robert L. Tebeau Profits and Dividends: Big Business vs. Small, Dun's Review, January 1940, pp. 11–22.

and warehouses bulged with inventories whose values had increased fabulously during the inflation period. The war had ended; deflation was forecast; war trade was at an end. A class of taxpayeis had paid taxes on incomes reflected by inventories, an income not in fact realized. There was no one to recoup them the losses caused by the shrink in the value of their assets. This section was designed to permit such taxpayers to carry over such losses into the 2 succeeding years.[33]

The provision of the 1918 act arose clearly out of an emergency situation and was designedly short-lived, applying only to the taxable year October 31, 1918, to January 1, 1920. During that period the taxpayer was allowed to deduct from the preceding year's income [34]—as redetermined—any net loss resulting from (a) "the operation of any business regularly carried on by the taxpayer" or (b) "the bona fide sale by the taxpayer of plant, buildings, machinery, equipment, or other facilities constructed, installed, or acquired by the taxpayer on or after April 6, 1917, for the production of articles contributive to the prosecution of the present war." The term "net loss" as defined included the "excess of deductions allowed by law (excluding intercorporate dividends) over the sum of the gross income plus any interest received free from taxation * * *." [35]

This provision for net loss carry-over (for 2 years) was made a general feature of the Federal income-tax law by the Revenue Act of 1921 and remained so through the year 1931. The 1918 restrictions as the offsetting character of intercorporate dividends and Government interest were continued in the subsequent acts, which further provided that in determining "net loss" no allowance should be made for depletion based solely on discovery values. Nor could net loss for 1 year produce "net loss" in succeeding years.[36] In 1932 the carry-over period was reduced from 2 years to 1 year, while the deduction itself expired at the end of that year—at the very bottom of the great depression. The Revenue Act of 1939 (applicable to 1940), however, has restored the limited deductibility of prior years' operating losses (2-year carry-over).[37]

During the interim 1933–39, inclusive, taxable net income was determined on the basis of a single year without reference to the fortunes of other years (except for the emasculated undistributed profits tax in 1938–39). As a consequence the only data available on the operation of prior years' loss deductions pertain to the years prior to 1933. These data have been summarized in charts IX (1926–32, by industries) and X (1931–32 by corporate size).

The deductibility of prior years' losses (measured as percent of net income), it is apparent from a quick inspection of chart IX, was a matter of great consequence to construction and mining corporations, the taxable net income of which was reduced by more than 13 percent in 1932. The deduction was unimportant to public utilities, where it usually reduced their taxable net income by only 1 to 2 percent or less. Its importance to financial corporations sharply increased with the course of the depression, more rising from 2.2 percent in 1929 to 7.1 percent in 1932. Its role in manufacturing increased only slightly, rising from 2.2 percent in 1926 to 4.3 percent, and with the advent

[33] 38 F. (2d) 755 (1930), at p. 758.
[34] Any excess could be deducted from the income of the succeeding year.
[35] Sec. 234 (a).
[36] Sec. 204. Also see Regulations 62, art. 1601.
[37] Sec. 122. The 1938–39 changes in the accounting methods for taking inventories were intended to reduce fluctuations and insofar serve the same purpose as loss carry-over provisions.

of the depression (1930) actually declined below the 1926–29 figure. Its role in trade and service also increased with the course of the depression, somewhat paralleling manufacturing—experiencing a decline in 1930—but the use of prior years' losses in those industries was quite unspectacular.

The prosaic course of the prior years' loss line in manufacturing is spectacularly departed from by several manufacturing industries, particularly in rubber, textiles, forest products, and food and beverages. In rubber and food-beverages the deduction for prior years' losses showed a tendency to soar upward as the depression became intensified, rising as high as 15 percent of net income in the former case. Both textiles and forest products were characterized by considerable irregularity during the entire period (1926–32) for which data are available. Printing, leather, chemicals, metals (except in 1928), stone-clay-glass, and paper appear fairly regular year by year in the amount of losses claimed as a deduction from net income. Tobacco made substantially no use of the deduction.

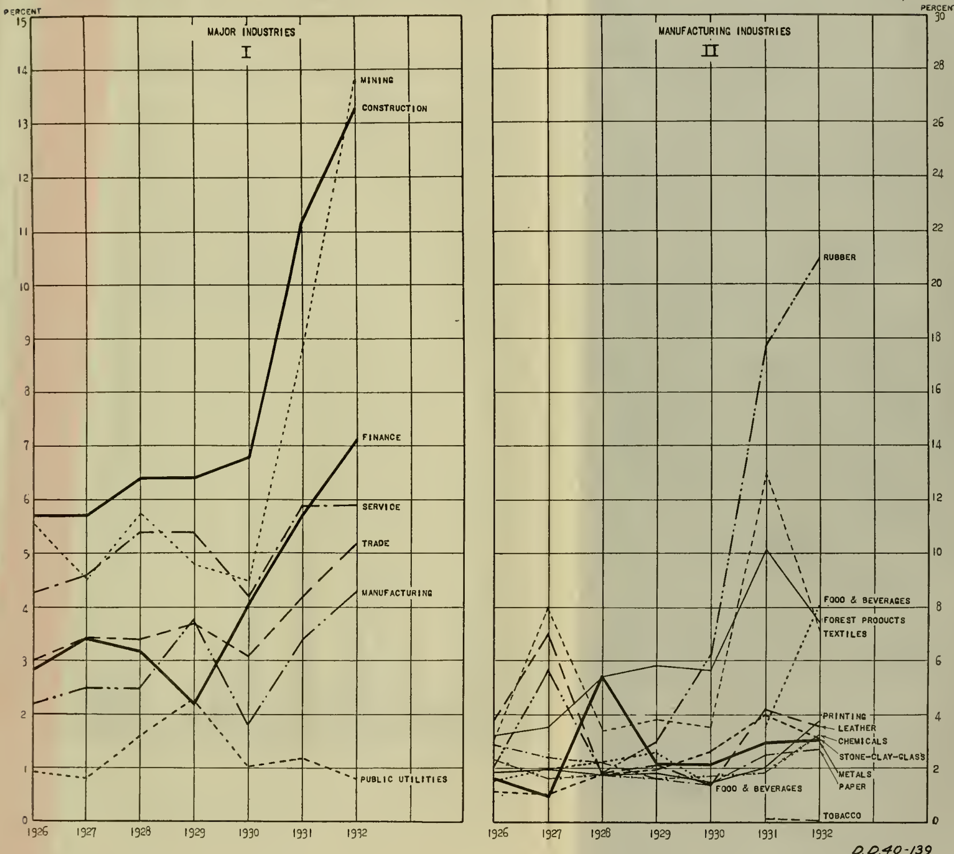
The importance of the prior years' loss deductions to corporations of varying size in 1931 and 1932 is shown as a series of pyramids in chart X (each containing 9 sectors representing size classes). The relative magnitude of the deduction is measured as percent of net income before the allowance for the prior years' losses. The size of these percentages shows the relative degree by which net income was reduced by the allowance of this deduction. The magnitude of the prior years' loss deduction tends to vary inversely with size—that is, the smaller corporations tended to claim relatively larger prior years' losses than did the larger corporations, particularly in manufacturing generally, trade, and construction, and to a lesser degree, in finance and public utilities. Among manufacturing industries this observation is also applicable to tobacco, leather, paper, printing, chemicals, stone-clay-glass, and metals.

But there were some very notable exceptions to this general pattern, particularly in 1931, when the relatively largest deductions for prior years' losses were claimed by the largest corporations, as in mining (1931) and service (1932), and among the manufacturing industries, in food and beverages (1932), textiles (1931), rubber (1932), and forest products (1931). These exceptions are notable because of the relative magnitudes involved. The largest loss deduction claimed by small corporations, among the major industries was 4.7 percent of net income (construction corporations with assets under $50,000 in 1932) while the largest loss deduction claimed by the biggest corporations was 92 percent (mining corporations with assets over $50,000,000 in 1931) or approximately 20 times as much as that claimed by the smaller corporations. Likewise among manufacturing industries the largest deductions for small corporations was 48 percent of net income (rubber corporations with assets from $100,000 to $250,000 in 1931) as against 78 percent (rubber corporations with assets from 5 to 10 million dollars in 1931) of the net income of larger corporations.

These illustrations suggest that the prior years' loss deduction was of very substantial importance to large corporations in particular industries (e. g., mining, rubber, and lumber) where the cyclical fluctuations of the industry more than offset the size factor. Conversely, the generalization (stated at the outset of this section) that the smaller corporations tend to have lower chances of profits in the long run may not be applicable to highly fluctuating industries.

Chart IX

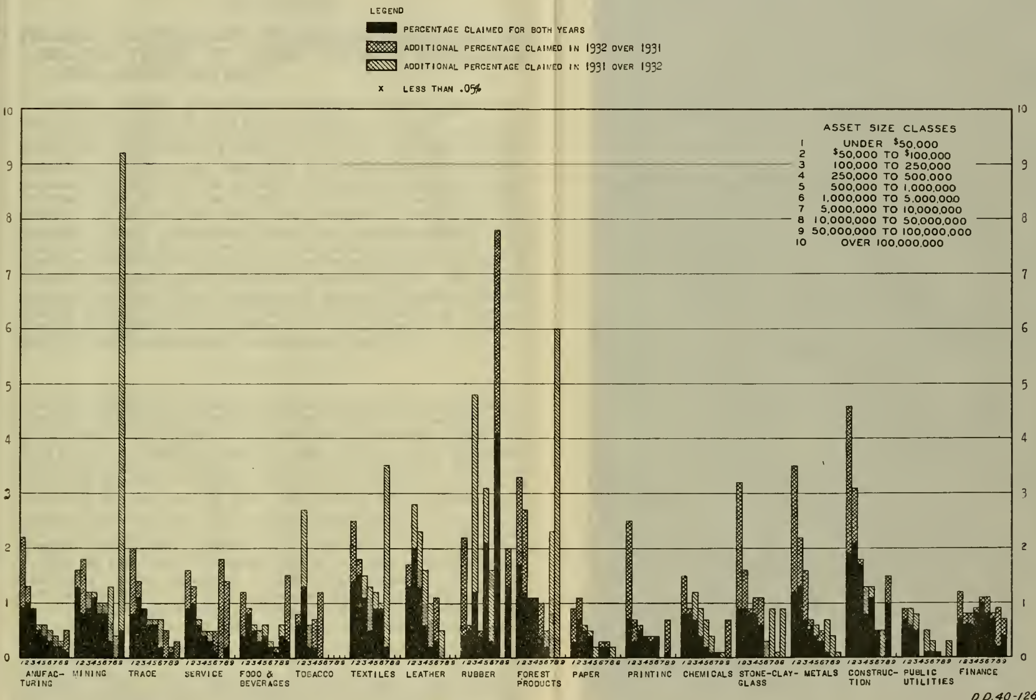
DEDUCTION OF PRIOR YEARS' LOSSES AS PERCENT OF TAXABLE NET INCOME BY INDUSTRIES, 1926–32 (RETURNS WITH NET INCOME ONLY)



Source: Computed from Statistics of Income for respective years. Department of Commerce.

Chart X

DEDUCTION OF PRIOR YEARS' LOSSES AS PERCENT OF TAXABLE NET INCOME, BY SIZE CLASSES AND INDUSTRIES 1931-32 (RETURNS WITH NET INCOME ONLY)



Source: Computed from the Sourcebook of the Statistical Section of the Bureau of Internal Revenue. Department of Commerce.

CHAPTER III

FEDERAL TAX TREATMENT OF HOLDING COMPANIES AND RELATED FORMS OF INTERCORPORATE AFFILIATION (CONSOLIDATED RETURNS)

To what extent are the profits of corporations of varying sizes and industries affected by Federal income taxes?

The formulation of this question raises at least two problems of definition—what taxes and what profits? The tax item has been defined as including only taxes paid by corporations directly to a governmental body—in this instance to Federal collectors of internal revenue.[1] For the purpose of this and the immediately following chapter, the tax item has been further defined to include only the so-called "normal" corporation income tax; succeeding chapters deal with the effect of the excess-profits and capital-stock taxes and the surtax on undistributed profits, and the composite effects of all four Federal taxes based upon or related to corporate profits. The profits item has been defined as including all income otherwise available (that is, before the payment of Federal income taxes) to the corporation for (*a*) distribution of dividends to stockholders or (*b*) reinvestment in or by a corporation ("undistributed profits").

THE CORPORATE WORLD

If corporations were separate entities and unrelated to one another—except in a bargaining capacity "at arms' length"—these definitions of the terms of the inquiry would probably suffice without more ado. Ever since 1888, however, when the State of New Jersey authorized corporations chartered under its laws—and, by the grace of the constitutional doctrine of comity, operating anywhere in the United States—to acquire stock in other corporations, the members of the corporate system have become closely interrelated. Prior to this step taken by the State of New Jersey, corporations were almost invariably owned and controlled by natural persons as stockholders.[2]

With the rapid and widespread use of this new corporate power, which was rapidly authorized by other State legislatures,[3] corporations have become, to no small degree, owners of themselves. According to the most recent statistics (1934–37) collected on a comparable base in this respect, a very substantial part of all cash dividends paid

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[1] This definition was made at the outset of the studies on the ground that only such taxes as were paid directly to the Government can be accurately known for any tax-paying unit or aggregate of units for any given time period.

[2] Bonbright and Means record a handful of cases where corporations were specifically authorized by their charter of incorporation to own stock in other corporations, including Baltimore & Ohio Railroad (1832), Pennsylvania Railroad (1850), Western Union Telegraph Co. (1804), American Bell Telephone Co. (1880), and some forty odd corporations specially chartered by the Pennsylvania Legislature between 1868 and 1872, among which were the Pennsylvania Co. (probably the first pure holding company) and South Improvement Co. See "Holding Companies," Encyclopedia of the Social Sciences, 7:404.

[3] "In a period of 40 years the holding company, which had been regarded as undesirable and contrary to public policy except under unusual conditions, was made by most States an acceptable and legal practice." Ibid.

out by American corporations have, in fact, been received by themselves as corporate stockholders in one another. In 1934 dividend income from domestic corporations constituted 45.6 percent of all cash dividends distributed by American corporations; in 1935, 50.7 percent; in 1936, 36.5 percent; and in 1937, 34.4 percent.[4] From these figures it may be concluded that at least one-third to one-half of the profits reported by the half-million corporations of the United States, when distributed, are paid to and received by American corporations.[5]

Intercorporate investments have grown not only in magnitude—so that approximately half of corporate America is owned by the other half of corporate America—but also in complexity. By strategically selecting the kind and amount of stock to be held in other corporations, one corporation may in time control the policies and activities of several corporations, representing investments vastly larger than the original contributions of the controlling corporation or "holding company," as it rapidly became known.[6]

Essentially this new corporate device known as the holding company, or some gradation thereof, was simple in purpose and nature, although its consequences in practice were to make an already complicated corporate world so complex that words or two-dimensional charts are usually inadequate to describe it. The simple purpose of the holding company was to control and exercise overhead management of the "properties of two or more heretofore independent corporations," with minimum risk and investment. When carried to several degrees, this technique of industry control has been appropriately described as "pyramidal," with the holding company sitting at the top of the pyramid holding successively small blocks of stock in the underlying layers of the pyramid and controlling the activities of the entire pyramid.

> Where each company in the series has bonds and nonvoting preferred stock outstanding, the reduction in the investment necessary for control diminishes even more rapidly, so that a pyramid involving three holding companies will allow, say, a $1,000,000 investment in a top holding company to control a billion-dollar operating company. The investment necessary for control may be made even smaller by issuing nonvoting common stock or stock with limited voting power.[7]

The business advantages of the holding technique are obvious. Bonbright and Means have summarized them as follows:

> Ease of organizing the combination.
> Ease of perpetuating control in the hands of the organizer by means of stock pyramiding.
> Ability to combine enterprise that could not be legally fused by direct ownership.
> Secrecy of the fact of the combination and its financial accounts and operations.
> Freedom from governmental regulation.
> Decentralization of management.
> Insulation of liabilities.
> Ease of divorcing the properties.[8]

It is manifest from this formidable enumeration that industrial integration has been greatly facilitated by the holding-company technique without involving either the costs or the difficulties of out-

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[4] Computed from Statistics of Income for respective years.

[5] These relationships of dividend income and distributed dividends, of course, vary with corporate size. In 1937 for every hundred dollars cash dividends distributed by the largest corporations (with assets over $100,000,000) those same corporations received $52 as dividends, while the smaller corporations (with assets under $250,000) received as dividends only $6 to $9 for every hundred dollars distributed as cash dividends.

[6] See Bonbright and Means, The Holding Company. For concrete illustrations of intercorporate stock ownership and control, see the reports of the Federal Trade Commission on public-utility holding companies, and the Securities and Exchange Commission on investment trusts.

[7] Bonbright and Means, "Holding Companies," Encyclopedia of the Social Sciences, 7:406.

[8] The Holding Company, pp. 30–40.

right merger or consolidation and yet retaining all the flexibility of separate operating units. Such, in brief, without commendation or condemnation, are the purposes and techniques of intercorporate investment.[9]

CONSOLIDATED CORPORATE INCOME-TAX RETURNS: ORIGIN AND HISTORY

Prior to 1934–36 the Federal revenue acts substantially facilitated the practice and growth of intercorporate affiliations by allowing the members of an interaffiliated corporate system to file a consolidated income-tax return in which the losses of constituent members could be offset against the profits of other members. The exemption from Federal corporate income taxation of all dividend income received from other domestic corporations subject to tax, which will be examined in the following chapter, is another example of the Federal revenue acts doing little or nothing (prior to 1936) to hinder the prevalence of holding companies and related forms of intercorporate affiliation.

The basic industrial unit for Federal corporate-income-tax purposes was originally the corporate entity "as if it were in no way related to any other corporation."[10] Starting in 1917, however, the Federal revenue laws took special cognizance of the fact that corporations frequently were closely interrelated through the ownership of the stock of one another and the interlocking representation of common interest. In the first period of this development (1917–21) all the members of an interlocking corporate system were required to file with the Bureau of Internal Revenue a consolidated income-tax return as if they were a single legal-economic entity, without regard to intermember activities within the system. In 1921 the mandatory requirement was converted into a privilege of the interaffiliated corporations to file a consolidated return for the entire system, if they so should choose.

With the coming of the depression and the resultant decimation of income taxes as producers of Federal revenue, the consolidated tax-returns device became subject to intense criticism, which initially reflected itself in the imposition of a tax at a slightly higher statutory rate (three-fourths of 1 percent in 1932 and 1 percent in 1933) on consolidated returns and then in the outright repeal of consolidated returns in 1934, with the exception of "common carrier by railroad." The unit of Federal corporate income taxation has again become the corporation [11] as such, with the exception just noted.

(*a*) *Mandatory consolidation of income-tax returns for inter-affiliated corporations.*[12]—The enactment of an excess-profits tax at steeply graduated rates (ranging from 20 to 60 percent) in 1917 (see appendix A), of course, brought in their tow aggravated administrative problems. By regulation it was promptly provided that "wherever necessary to more equitably determine the invested capital or taxable

[9] See also testimony of Professor Fetter before the Temporary National Economic Committee, Hearings, Part 5, pp. 1667–1677.

[10] Bureau of Internal Revenue, Regulations 33 (under the 1916 Revenue Act), art. 207.

[11] Regulations 101 (under the Revenue Act of 1938) define "corporations" as including not only "the artificial entity usually known as a corporation, but * * * also an association, a trust classed as an association, because of its nature or its activities, a joint stock company, an insurance company, and certain kinds of partnerships," art. 901-1. For further definitions see the remaining sections of art. 901.

[12] The American Institute of Accountants, in advocating the use of consolidated returns prior to the Bureau of Internal Revenue regulations under the 1917 act, stated that taxes would then be "based on the real facts and determined by the relation between true income and true investment of the companies as a whole." Quoted in Paul and Mertens, Federal Income Taxation, 4-420n.

income," the Commissioner of Internal Revenue "may require corporations classed as affiliates under article 77 to furnish a consolidated return of net income and invested capital." [13] Article 77 provided that affiliation would be deemed to exist:

1. When one such corporation owns directly or controls through closely affiliated interests, or by nominee or nominees, all or substantially all of the stock or stocks of the other or others, or when substantially all the stock of two or more corporations is owned by the same individual or partnership, and both or all such corporations are engaged in the same or closely related business; or
2. When one such corporation (*a*) buys from or sells to another products or services at prices above or below the current market, thus effecting an artificial distribution of profits, or (*b*) in any way so arranges its financial relationships with another corporation as to assign to it a disproportionate share of net income or invested capital.[14]

The need for requiring consolidated tax returns was stated by the Bureau of Internal Revenue as follows:

Otherwise opportunity would be afforded for the evasion of taxation by the shifting of income through price fixing, charges for services, and other means by which income could be arbitrarily assigned to one or another unit of the group. In other cases without a consolidated return excessive taxation might be imposed as a result of purely artificial conditions existing between corporations within a controlled group.[15]

The Senate Finance Committee (reporting on the 1918 Revenue Act) favored the consolidated tax return "not primarily because it operates to prevent evasion of taxes or because of its effect upon the revenue but because the principle of taxation as a business unit, what in reality is a business unit, is sound and equitable and convenient both to the taxpayer and to the Government." [16]

The Revenue Act of 1918 specifically provided that interaffiliated corporations "shall make a consolidated return of net income and invested capital," [17] for the purpose of tax computation upon the basis of such return. Changing the definition of affiliation somewhat from that found in the Commissioner's regulations, the statute provided that corporations—

* * * shall be deemed to be affiliated (1) if one corporation owns directly or controls through closely affiliated interests or by a nominee or nominees substantially all the stock of the other or others, or (2) if substantially all the stock of two or more corporations is owned or controlled by the same interests.[18]

An attempt to confine consolidated tax returns to "corporations engaged in the same or related business," as specified in the Commissioner's regulations, was unsuccessful.

The loose definition of "affiliation" naturally gave rise to difficult problems of interpretation.[19] Regulations 45 (under the 1918 act) required consolidation in all cases involving control of "95 percent or more of the outstanding voting capital stock (not including stock in the treasury)" and contemplated that consolidation might be required in other cases where control was considerably less.[20]

(*b*) *Consolidation made optional with the tax-paying corporation.*—Under the 1921 Revenue Act the managers of an interaffiliated cor-

[13] Regulations 41, art. 78.
[14] The Commissioner's action was specifically ratified by the 1921 Revenue Act, sec. 1331.
[15] Regulations 45, art. 631.
[16] 65th Cong., 30th sess., S. Rept. 617, p. 819.
[17] Sec. 240 (a). Note that the "shall" was construed as mandatory in effect. See also Regulations 45 arts. 631–638.
[18] Sec. 240 (b).
[19] For a list of such questions, see the 1928 Report of the Joint Committee on Internal Revenue Taxation, pp. 65–66.
[20] Art. 633. Tax Board cases have gone as far down as 85 percent. See Paul and Mertens, op. cit., 4: 523.

porate system were permitted to elect whether to file separate tax returns or to make a consolidated tax return. But once having made an election, the same became binding on all the members of the corporate system, which must thereafter file its tax returns "upon the same basis unless permission to change the basis is granted by the Commissioner." [21] No substantial change was made in the statutory definition of affiliation.[22]

The Revenue Act of 1924 defined "affiliation" with greater precision, specifying that "control" resulted "(1) if one corporation owns at least 95 percent of the voting stock of the other or others, or (2) if at least 95 percent of the voting stock of two or more corporations is owned by the same interests." [23] The words "substantially all" were thus succeeded by an arithmetic figure and "control" became limited to "own." Some vagueness about "voting stock" still remained to be corrected in the 1926 act.[24]

Opposition to the device of consolidated returns began to be voiced. In the debate on the 1924 Revenue Act, Senator Smoot contended that consolidated tax returns played an important role in the current phase of destructive competition in the lumber industry.[25] By raising the control figure from 80 percent (as specified by the House) to 95 percent, this danger was believed accounted for. During the consideration of the 1928 Revenue Act criticism of consolidated tax returns again flared up, and in fact the opposition was sufficiently strong for the House, supported to a substantial extent by the report of the Joint Committee on Internal Revenue Taxation, to vote for the abolition of the privilege of filing consolidated returns in order to prevent unfair competition and price cutting via taxation. In the Senate Finance Committee, however, the consolidated tax returns were warmly defended:

> To refuse to recognize this situation and to require for tax purposes the breaking up of a single business into its constituent parts is just as unreasonable as to require a single corporation to report separately for tax purposes the gains from its sales department, from its manufacturing activities, from its investments, and from each and every one of its agencies. * * * Your committee believes that rather than departing from business practices and standards our revenue laws should be brought nearer to a recognition of them.[26]

The revenue law of 1928 retained consolidated tax returns albeit in somewhat altered form. The rule-making authority of the Commissioner of Internal Revenue was greatly increased. A separate regulation series (75) comprising 24 printed pages was issued on consolidated tax returns, whereas previously only a few sections of three to four pages of the general series on income-tax regulations had sufficed. The mere filing of a consolidated tax return by an affiliated group, it was stipulated in the new regulations, operated as its consent to all regulations prescribed by the Commissioner.[27] The definition of "affiliation" was refined as follows:

> * * * an "affiliated group" means one or more chains or corporations connected through stock ownership with a common parent corporation if (1) at least 95 percent of the stock of each of the corporations (except the common parent

[21] See Bureau of Internal Revenue, Regulations 62, arts. 631–638. Note, however, that each successive revenue act (1924, 1926, 1928, and 1932) afforded new opportunities for election.
[22] Regulations 62 (under the 1921 act) raised the lower limit of potential affiliability to 70-percent control.
[23] See 240 (c). Chain Trade Act corporations were excepted.
[24] "As used in this subdivision the term 'stock' does not include nonvoting stock which is limited and preferred as to dividends," sec. 240 (d).
[25] Cong. Rec., 65:7130.
[26] 70th Cong., 1st sess., S. Rept. 960, pp. 15–24.
[27] In 1932 this clause was enacted by the revenue act, sec. 141 (a).

corporation) is owned directly by one or more of the other corporations; and (2) the common parent corporation owns directly at least 95 percent of the stock of at least one of the other corporations.[28]

Ownership by common "interests" (e. g., by stockholders)—so-called class B affiliates—no longer sufficed; to permit the filing of a consolidated tax return, direct ownership by the corporation or corporations was required. A major change in the nature of the tax liability of the affiliated group and its member was effected by article 15 (a) of the Commissioner's regulations, which provided that the parent and each subsidiary were severally liable for the tax.

In the course of the debate on the Revenue Act of 1932, the consolidated tax return device was again scored for its competitive abuse by chain stores and utilities.[29] The House was especially critical, suggesting that consolidated tax returns, if permitted at all, must be subject to an additional tax of 1½ percent. The Senate, however, insisted on paring the differential rate down to three-fourths of 1 percent.[30]

(*c*) *Abolition of consolidated returns in 1934, with certain exceptions.*—The growing opposition against consolidated tax returns reached its climax during the consideration of the Revenue Act of 1934. To the charge of competitive unfairness, which had been aired on previous occasions (notably in 1928 and 1932), were now added the following specific criticism of the consolidated returns privilege:

> It cannot be denied that the privilege of filing consolidated returns is of substantial benefit to the large groups of corporations in existence in this country. This is especially true in depression years, for the effect of the consolidated return is to allow the loss of one corporation to reduce the net income and tax of another, and during a depression more losses occur. Another effect of the consolidated return may be to postpone tax. This is because there is no profit recognized for tax purposes on intercompany transaction, and profits on a product of the consolidated group, passing through the hands of the different members of the group, are not taxed until the product is disposed of to persons outside the group.
>
> In the past, when any corporation could carry forward a net loss from one year to another, the consolidated group did not have such a great advantage over the separate corporation. Now that this net loss carry-over has been denied, the advantages of the consolidated return is much greater on a comparative basis.[31]

Despite an estimate that the elimination of consolidated returns would result in "an annual increase in revenue of $20,000,000,"[32] the Treasury favored the retention of consolidated returns:

> * * * there are considerable savings to the Treasury, as well as to taxpayers, in the present arrangement. The administration of the law is simpler since it conforms to established practice. The Treasury need deal with only one corporation, the parent. On the taxpayer's side, the requirement of separate returns would cause largely increased expense to set up separate sets of books for tax purposes, an undesirable result in itself. The present law permits a return in accord with business practice, and gives the Treasury broad powers to make the necessary rules and regulations to prevent escape from the tax. In the judgment of the Department, the law should not be changed in this particular.[33]

The Treasury's spokesman referred to the fact that sometimes State law required in effect multiple incorporation of corporations, as in the

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[28] Sec. 141 (d). Insurance companies were excepted, sec. 141 (e).

[29] Cong. Rec., 75: 7124–7128.

[30] The National Industrial Recovery Act of 1933 raised the differential rate to 1 percent. The regulations issued under the 1932 Revenue Act (series 78) followed substantially the previous regulations under the 1928 act (series 75).

[31] Report on the Revenue Bill of 1934, p. 16.

[32] House Ways and Means Committee, 73d Cong., 2d sess., Hearings on Revenue Revision, p. 85.

[33] Ibid. In the absence of consolidated returns, the tax administrator must carefully scrutinize intercorporate transactions in order to detect the creation of various types of artificial losses, including those resulting from intercompany transfer of assets.

case of railroads. Apparently little significance was attached by the Treasury to the alleged competitive abuses of the privilege.[34]

Obviously influenced by the stand of the Treasury, the Ways and Means Committee voted to override the report of its subcommittee and the House itself voted against the abolition of consolidated tax returns. In the Senate, however, the objections against consolidated tax returns were voiced with greater strength, in contrast to previous years when the Senate had rejected House proposals for abolishing consolidated returns.[35] Instead of an outright abolition of the privilege, however, the 1934 Revenue Act permitted consolidated tax returns to be filed by railroads, in consonance with the practice of the Interstate Commerce Commission to permit consolidation for regulatory purposes. The consolidated tax returns so filed, however, were to be subject to an additional tax of 2 percent in 1934-35. In 1936 this differential tax was removed.

The resultant change took the form of a new definition of "affiliated group," as follows:

> * * * an "affiliated group" means one or more chains of corporations connected through stock ownership with a common parent corporation if * * * (provisions (1) and (2) as in the 1928 act) (3) each of the corporations is either (A) a corporation whose principal business is that of a common carrier by railroad or (B) a corporation the assets of which consist principally of stock in such corporations and which does not itself operate a business other than that of a common carrier by railroad * * *.[36]

All other corporations must file separate income-tax returns for each corporate entity.

IMPORTANCE OF CONSOLIDATED RETURNS, 1928–33

It is difficult to exaggerate the importance of consolidated tax returns in the operation of Federal taxes on corporate income during the period 1928–33. Half or more of all Federal taxes on corporate income were reported on consolidated tax returns in the years 1928–31. Half or more of the total taxable income reported for all corporations came from consolidated returns for the years 1929–31, while the gross income reported on consolidated returns varied from 44 to 48 percent of the gross income of all corporations for the same period. (See table IV.)

TABLE IV.—*Importance of consolidated income-tax returns, 1928–33*

[Items on consolidated tax returns as percentages of items on all returns]

	1928	1929	1930	1931	1932	1933	Average 1928–33
Gross income	45.6	43.6	47.6	46.7	39.6	37.9	43.5
Taxable net income	47.6	51.1	52.5	50.1	23.3	27.9	42.1
Federal income taxes	49.9	52.9	55.9	54.3	23.5	28.6	44.2

Source: Computed from Statistics of Income for respective years.

[34] See the exchange of remarks between Undersecretary Magill of the Treasury and Congressmen Vinson and McClint, ibid, pp. 104–05. Cf. a contrary statement of Robert Jackson, representing the Bureau of Internal Revenue, during the 1935 hearings before the Senate Finance Committee, pp. 223-226.

[35] See Cong. Rec., 78: 5847, 6304–7, 6463–66, 6555–61.

[36] See 141 (d). In other respects the Regulations No. 89 issued pursuant to the 1934 Revenue Act followed substantially the previous regulations. One innovation was the requirement that each subsidiary file a special form consenting to the use of the consolidated device by the parent member of the affiliated group. Art. 12. The 1938 Revenue Act expanded the definition to include, in addition to the foregoing, "a street or suburban trackless trolley system of transportation operated as part of a street or suburban electric railway or trackless trolley system." Sec. 141 (d) (3). The 1939 Revenue Act added Pan-America trading corporations to the permissive category. The second Revenue Act of 1940 reintroduced consolidated returns for purposes of the new excess-profits tax.

When these statistics are broken down in terms of specific industries (see chart XI), it is apparent that consolidated income-tax returns played an overwhelming role in public utilities, accounting for approximately 80 percent of gross income, net income, and Federal taxes reported for that industry in 1929. Next in order of importance were manufacturing and mining, where consolidated tax returns accounted for approximately 60 percent of the gross income, taxable income, and Federal taxes, respectively, reported in 1929. Consolidated tax returns were less important to service corporations and relatively unimportant to trade, finance, and construction corporations, accounting for approximately one-third to one-fifth of the gross income, net income, and Federal taxes, respectively, reported in 1929.

In 1933, on the other hand, the consolidated tax return had shrunk in relative importance. The decline is particularly marked in the relative importance of the taxable net income and Federal income taxes reported on consolidated income-tax returns. Substantial declines, if not so marked, are also shown in the relative amount of gross income reported by consolidated corporations. This decline in the use of the consolidated returns device is a consequence of two factors—(a) the higher tax rates applicable to consolidated tax returns (introduced in 1932), the effect of which is primarily reflected in the decline in relative gross income, and (b) the increasing magnitude of intercompany losses during the course of the depression.

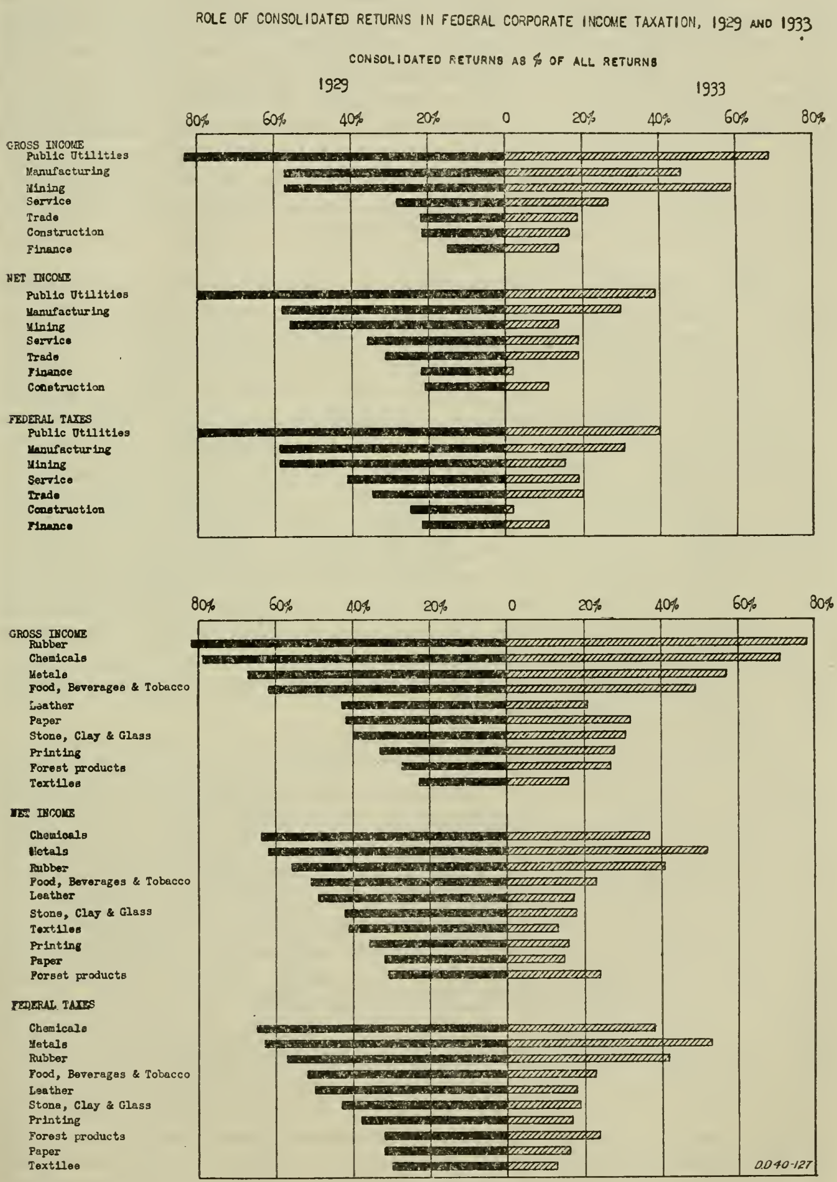
Within manufacturing there are also marked differences in the importance of the consolidated returns (see chart XI). Rubber, chemicals, metals, food, beverages, and tobacco characteristically made extensive use of consolidated tax returns, 60 to 80 percent of the gross income of which was reported on consolidated tax returns in 1929. Consolidated returns were relatively unimportant to textiles, printing, and forest products corporations, where the consolidated group accounted for only 20 to 30 percent of the gross income reported for those industries in 1929. Leather, paper, and stone, clay, and glass occupied a middle position in the consolidated tax-returns picture, the gross income reported on such returns accounting for approximately 40 percent of that shown for the entire industries in 1929. Substantially the same relationships are shown for taxable net income and Federal income taxes reported on consolidated returns in 1929.

One of the outstanding facts shown in chart XI is that in 1929 the bars showing the percentile importance of gross income, taxable net income, and Federal income taxes reported on consolidated income tax returns tend to closely parallel one another, industry by industry (with the exception of rubber and chemicals). This substantial coincidence means that given amounts of gross income result (after deductions allowed by the tax laws) in similarly proportioned amounts of taxable net income upon which, in turn, similarly proportioned amounts of Federal corporate income taxes that are reported due and payable.

The fact that these three percentages for consolidated returns of all income tax returns exhibited a fair degree of constancy can be taken to prove that there were in 1929 no marked differences between consolidated tax returns and unconsolidated tax returns in the determination of taxable net income and the resultant tax liability thereon. In 1933, on the other hand, this parallel does not appear; on the contrary the relative amounts of taxable net income and Federal corporate income taxes of the consolidated group are conspicuously smaller than

the relative amount of gross income, industry by industry. By 1933 there appeared, then, to be marked differences between consolidated tax returns and unconsolidated tax returns as to the determination of taxable net income and the resultant tax liability thereon. In other words, the situation with respect to consolidated income tax returns in 1933 represents a radical change from what the situation had been in 1929.

CHART XI



Source: Computed from Statistics of Income for respective years.

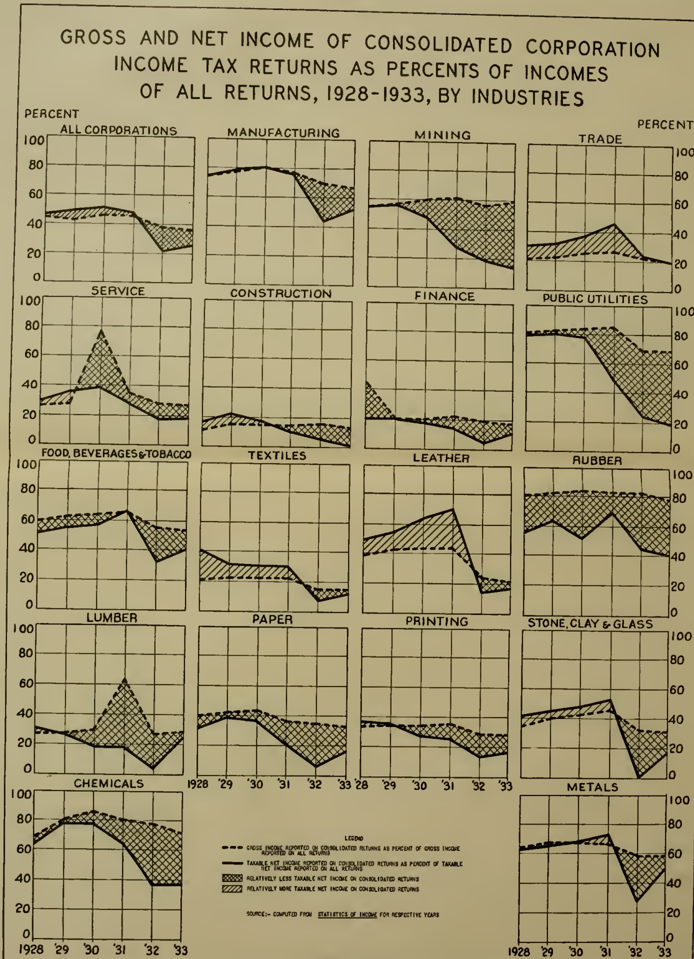
Department of Commerce.

DEDUCTION OF LOSSES BY SUBSIDIARIES

The differences found between consolidated and unconsolidated income tax returns may, of course, be the reflection of many factors, some of which may bear no relationship to the device of consolidated tax returns. It is possible to eliminate such extraneous factors to some extent by making the comparisons industry-by-industry rather than for corporations as a whole. The nature of the data unfortunately does not permit holding the size factor constant, and perhaps there may be other factors whose influence cannot be fully controlled. For example, the gradual tax rate penalization of corporations filing consolidated income tax returns undoubtedly led some of the corporate systems, which on the whole were profitable, to abandon the privilege and to file separate income tax returns for each corporate member as a unit in itself. To this extent only corporate systems having heavy losses by subsidiaries that would outweigh the additional tax rate (three-fourths of 1 percent in 1932 and 1 percent in 1933) would presumably avail themselves of the privilege of filing a consolidated tax return.

In other words, the relative financial success of the consolidated group in 1932–33 was probably lower than it would have been if a discriminatory tax (however slight) had not been imposed. A decline in the absolute number of consolidated tax returns did occur, changing from 8,495 in 1931 to 7,426 in 1932 and to 7,101 in 1933, a decline of 16 percent. But the absolute number of unconsolidated tax returns also declined, falling from 516,404 in 1931 to 508,636 in 1932 and to 504,080 in 1933, a decline of 2.4 percent. It must be noted, however, that no discriminatory tax was imposed in 1931 when some of the trends stresses (infra) had already begun, that after all the statutory discrimination was relatively minor in character (at most 1 percent), and that the empirical data conform to the main hypothesis derived from a reading of the relevant statutory provisions. The statistical data are not so valid as could be desired, but their deficiencies are not of such a degree as to preclude realistic analysis or conclusions. In no instance do the data fly in the face of what might have been reasonably expected from an a priori standpoint.

Consolidated and unconsolidated tax returns have been compared in terms of the amounts of taxable net income and total gross income reported on consolidated tax returns as percentages of the respective items reported for all corporations. The broken line on chart XII shows total gross income reported on consolidated tax returns in the given industry as percent of total gross income reported for all corporations in the same industry. The solid line shows taxable net income reported on consolidated tax returns (excluding deficits) in the given industry as percent of taxable net income reported for all corporations (excluding deficits) in the same industry. Whenever the net income line is lower than the gross income line, it is assumed that the variation between the two lines (shown as a cross-hatched area) shows the role of offsetting losses by subsidiaries in the operation of consolidated income tax returns. This assumption is fortified by the fact (a) that the comparison is always made industry by industry and (b) that the larger corporations (among which naturally fell the consolidated returns) are known in 1931 to 1933 to report relatively larger taxable net incomes than do smaller or medium-sized


GROSS AND NET INCOME OF CONSOLIDATED CORPORATION INCOME TAX RETURNS AS PERCENTS OF INCOMES OF ALL RETURNS, 1928-1933, BY INDUSTRIES
PERCENT
ALL CORPORATIONS
MANUFACTURING
MINING
TRADE
SERVICE
CONSTRUCTION
FINANCE
PUBLIC UTILITIES
FOOD, BEVERAGES & TOBACCO
TEXTILES
LEATHER
RUBBER
LUMBER
PAPER
PRINTING
STONE, CLAY & GLASS
CHEMICALS
METALS
100
80
60
40
20
0
1928
'29
'30
'31
'32
'33
LEGEND
GROSS INCOME REPORTED ON CONSOLIDATED RETURNS AS PERCENT OF GROSS INCOME REPORTED ON ALL RETURNS
TAXABLE NET INCOME REPORTED ON CONSOLIDATED RETURNS AS PERCENT OF TAXABLE NET INCOME REPORTED ON ALL RETURNS
RELATIVELY LESS TAXABLE NET INCOME ON CONSOLIDATED RETURNS
RELATIVELY MORE TAXABLE NET INCOME ON CONSOLIDATED RETURNS
SOURCE:- COMPUTED FROM STATISTICS OF INCOME FOR RESPECTIVE YEARS
DEPARTMENT OF COMMERCE
D.D. 40-128

corporations.[37] Where the net income line, on the other hand, is equal to or greater than the gross income line (the variation between which is a striped area), no clear assumption can be made, for subsidiary losses may still remain important to the consolidated group but be offset by the relatively larger taxable net income of the larger corporation (which probably includes the major part of the consolidated group).

From chart XII it is apparent that prior to the coming of the depression (1930–31) consolidated corporations reported the same or larger taxable net incomes in relation to gross income. This statement is not quite applicable to finance, public utilities, and mining, nor to certain manufacturing industries (i. e., food, beverages, tobacco, rubber, paper, chemicals, and metals) where some offsetting losses by subsidiaries appear to have occurred in 1928 and 1929.[38]

With the coming of the depression, however, the taxable net income reported by consolidated companies declined relatively much more rapidly than the taxable net income reported by the unconsolidated group. This decline was particularly marked in manufacturing, mining, and public utilities, and to a lesser degree in finance, service, and construction. No decline appeared in trade where the taxable net income of the consolidated group remained proportionately larger than its gross income.[39] Within manufacturing the decline was especially notable in food (including beverages and tobacco), rubber, forest products, paper, chemicals, stone, clay, glass, and metals. A decline occurred in the remaining manufacturing industries (i. e., textiles, leather, and printing), but was distinctly less marked.

ABOLITION OF CONSOLIDATED TAX RETURNS IN 1934

Further light on this problem may be shed by statistical examination of the effects of the statutory abolition in 1934 of the general privilege of filing consolidated returns upon corporations which had previously employed such consolidated tax returns. Such an examination can be made—albeit only in an approximate manner and in terms of broad industrial groups for the years 1933 and 1934—by virtue of a

[37] This assertion is made on the basis of the following table computed from Statistics of Income:

Taxable net income (excluding deficits) as percent of compiled receipts of all corporations

Size classes (based on assets in thousands)	1931	1932	1933	Average
	Percent	*Percent*	*Percent*	*Percent*
Under $50	1.5	0.7	0.9	1.0
$50–$100	1.6	1.0	1.5	1.4
$100–$250	2.0	1.3	2.1	1.8
$250–$500	2.4	1.8	2.8	2.3
$500–$1,000	2.6	2.2	3.5	2.8
$1,000–$5,000	3.2	2.5	4.2	3.3
$5,000–$10,000	4.4	3.4	4.8	4.2
$10,000–$50,000	4.4	3.6	5.3	4.4
Over $50,000	4.3	3.6	4.0	4.0

NOTE.—"Compiled receipts" differs slightly from "gross income" by including interest from governmental securities, but this discrepancy from the basis used in the text is believed to be very negligible.

[38] Data on consolidated tax returns are unfortunately not available for earlier years. Since the 1928 Revenue Act imposed several limitations upon the employment of consolidated returns (supra), it may be conjectured that previously the consolidated tax returns device may have been more extensively used than in the period for which data are available.

[39] This industry includes chain stores, which were frequently cited in connection with alleged competitive uses of the consolidated returns privilege.

series of special tabulations of identical corporations published in Statistics of Income for 1934.[40] The central point of this comparison is the relationship between taxable net income and total corporate receipts for the consolidated group and the unconsolidated group of corporations and what happened to this relationship in 1934 when the privilege of filing consolidated tax returns was repealed. A complicating factor in such a comparison is the fact that 1934 was on the average a better year than 1933 and that the rate of recovery may vary with industry and corporate size. This factor cannot be directly eliminated from the comparison, but it can be taken into account to a considerable degree by noting the relative change of the two groups of corporations in given industries. It must also be recognized that the unscrambling of consolidated accounts into separate accounts for each corporation may introduce other variables.

The method involved computing taxable net income as percentages of corporate receipts for corporations which filed consolidated returns in 1933 and which filed unconsolidated returns in 1934, and the same percentages for corporations which were unconsolidated in 1933 and, of course, remain unconsolidated in 1934. This computation makes it possible to compare the increase or decrease in the relative amount of net income—that is, the excess of corporate receipts over allowable deductions (including losses by subsidiaries) and credits for investment income [41]—of the two groups of corporations.

The results of this comparison are shown in chart XIII, in which are plotted the 1933–34 differences between the percents that taxable net income was of compiled receipts for the 2 years, by industries. If the line goes above the zero line, it indicates that the 1934 percentage was larger than that for 1933. If the line goes under the zero line, it indicates that the 1934 percentage decreased from that for 1933. The length of the line in either direction indicates the magnitude of the change between the 2 years.

When this comparison is made, it is discovered that the amount of taxable net income relative to corporate receipts remained completely unchanged for manufacturing corporations which had filed unconsolidated returns in both 1933 and 1934.[42] On the other hand, there was a distinct increase in the amount of taxable net income relative to corporate receipts for manufacturing corporations which had filed consolidated tax returns in 1933 and which were required in 1934 to file unconsolidated tax returns. The removal of the privilege operated to increase the relative taxable net income of manufacturing corporations. This same tendency for the consolidated group to increase their relative taxable net income while the unconsolidated group remained stationary is also found in public utilities.

In mining both the consolidated and unconsolidated group of corporations reported relative increases in taxable net income from 1934 over 1933, but the increase was distinctly larger for the consolidated group of corporations than for the unconsolidated group. This

[40] For description of these special tabulations and statement of qualifications as to results, see Statistics of Income for 1934, pt. II, pp. 19–32.

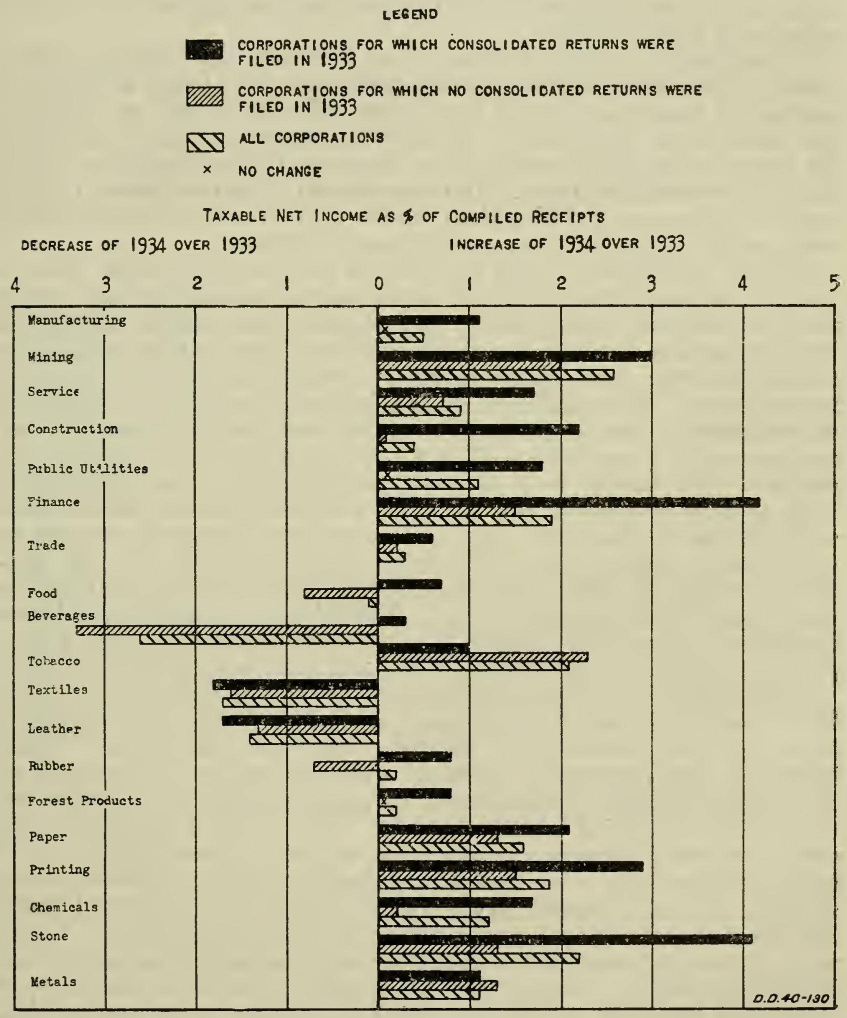
[41] The net loss carry-over provision expired in 1932 and consequently does not enter into any comparison involving 1933 and 1934.

[42] For simplicity in reference the phrase "consolidated groups" shall be understood to mean that group of corporations which filed consolidated tax returns in 1933 and were later unconsolidated (except for railroads), while the phase "unconsolidated group" shall be understood to mean that group of corporations which filed unconsolidated tax returns in both 1933 and 1934.

tendency was also characteristic of service, finance, and trade. A third situation is found in certain manufacturing groups (food and rubber) where the consolidated group of corporations reported relative increases in taxable income in 1934 over 1933, whereas the unconsolidated group reported relative decreases. A fourth, and reverse, situation is found in tobacco and metals, where the consolidated group reported relative decreases in taxable net income in 1934 over 1933, whereas the unconsolidated group reported relative increases.

Chart XIII

EFFECT OF ABOLITION OF CONSOLIDATED TAX RETURNS IN 1934 ON CORPORATE TAXABLE NET INCOME BY INDUSTRIES



Source: Computed from Statistics of Income for respective years. Department of Commerce.

During the prosperity years (1928 and 1929—the earliest years for which statistical data are available) the consolidated tax-returns device did not appear to offer substantial tax benefits to holding companies and related forms of interaffiliated corporations. The reason was fairly simple: During that period there were not substantial losses by subsidiaries (except in a few industries, e. g., rubber) that could be appropriately deducted via consolidated tax returns from the profits of other subsidiaries or of the parent. With the coming of the depression, however, and the intensification of the downward swing of the business cycle from 1930 to 1931 to 1932, the privilege of deducting subsidiary losses within affiliated systems became very important to the member corporations of the system in reducing their tax liability from what it would have been if the tax laws had treated each corporation as a unit in itself.

Given effective administration of the tax laws, the filing of consolidated tax returns by affiliated corporations results at best in the same amount of taxes that would have been collected if each corporation had been taxed separately. In any depression period consolidated tax returns drastically curtail taxes from what they would have been on an unconsolidated basis. In no event can consolidated tax returns result in higher tax liability than that computed on an unconsolidated basis, provided the tax laws are efficiently enforced.

It may be argued by the proponents of consolidated tax returns that such a basis for computing Federal income tax liability is (*a*) juster than the original (before 1917) and present (since 1934) method of determining the tax liability of interaffiliated corporations and (*b*) is administratively more feasible, for the reporting taxpayer and the tax collector. The argument of tax justice is predicated upon the general maxim that the taxpaying units should approximate the real business units, a proposition from which it is difficult to dissent in the abstract. By taxing interaffiliated corporations on a consolidated basis, it may be argued, the tax laws are but treating loosely knit combinations in the same way as the tax laws apply to merged or consolidated corporations. The one consists of parents and subsidiaries while the other consists of operating departments within the framework of a single corporation. Departmental losses in the latter case are, of course, offset against the profits of other departments within the same corporation, and only the residual is subject to Federal tax.

This argument overlooks, however, a very important point, namely, that loosely knit combinations and merged or consolidated corporations are quite different in nature, each from the other. These differences are practically identical with the unique advantages of the holding-company technique of corporate growth which were set forth at the beginning of this chapter. A single phrase may perhaps sum up these differences—a common unit of responsibility, or the lack of such a unit. The merged or large corporation affords such a common unit of responsibility. The holding company and its subsidiaries do not constitute any common unit of responsibility. In the realm of contracts and torts, employees and customers, investors and the general public, corporations are usually allowed to define their duties and liabilities strictly in terms of separate corporate entities, largely irrespective of intercorporate relationships. By defining the "real business unit" on a consolidated basis for affiliated companies, the Federal tax laws accepted a unit of responsibility which was practically nonexistent elsewhere in corporate relationships.

CHAPTER IV

INTERCORPORATE DIVIDENDS AND INTEREST ON GOVERNMENTAL SECURITIES

Another case in which the Federal revenue acts have done little to hinder the growth and continued existence of vast intercorporate networks is the treatment accorded dividend income in Federal corporate income taxation. It is, of course, obvious that the privilege of filing a consolidated income-tax return involves a complete disregard of all dividends received from subsidiaries within the affiliated system, but that was only one of the minor aspects of the consolidated tax returns device, since intercorporate dividends were free of taxation in the hands of the receiving corporation during the substantive life of the consolidated tax returns privilege.

FEDERAL TAXATION OF INTERCORPORATE DIVIDENDS—HISTORY

The Federal corporate excise tax of 1909 expressly excluded from corporate income, for tax purposes, all "amounts received by it as dividends upon stock of other corporations, joint stock companies or associations, or insurance companies, subject to the tax hereby imposed." The case for exempting corporate profits derived from dividends was stated in the House of Representatives, as follows:

Mr. Esch. As the corporation tax went to the Senate it excluded holding companies, as I understand it?

Mr. Payne (who had previously stated, "I have no use for an income tax"). It certainly does.

Mr. Esch. What is the reason for the exclusion?

Mr. Payne. There is no reason in the world why a corporation that owns stock in another corporation should pay a double tax upon those holdings.[1]

The case against the exemption was developed at considerable length in the upper legislative branch by Senator Newlands. At the outset of his remarks he observed that the problem had better be analyzed in terms of the role of dividends and the effect of their taxation upon different types of corporation:

Mr. President, there are three kinds of holding companies. One is represented by insurance companies, another by holding railroad companies, another by the great combinations which hold the stock of other companies for the purpose of monopolizing production.

It is very clear, so far as the first class of corporations is concerned, such as insurance companies, that it would be unjust to prevent such companies from exempting from their income the dividends received from corporations which pay this tax, for insurance companies are organized for the purpose of investing the money of their policyholders in the stocks of other corporations, and such investment is a perfectly legitimate one and is sanctioned by law.

As to railroad holding corporations, that is a device which has grown up from the fact that the United States has never as yet passed a national corporation law for the incorporation of interstate railroads; and of course it is necessary that in some way the union of railroads organized in different States, but when joined,

[1] Cong. Rec., 44: 4696.

forming continuous lines, should be accomplished in order that the great systems, extending from ocean to ocean and through many States, may be organized in such a way as to meet the convenience of the public.

Therefore certain States grant charters, enabling such corporations to hold the stocks of other railroad corporations and to operate the roads owned by various railroad corporations as an entire system. That form of holding corporation, though it is a clumsy substitute for a national corporation and has led to many evils in overcapitalization and escape from proper control, meets the convenience of the public; and as the various constituent corporations under it are subject to public regulation and control as natural monopolies, and the holding company itself, if it operates the continuous line, is also subject to public regulation and control, no moral objection can be made to that form of a holding company. It would be unjust as to that form of a holding company to compel it to pay another tax upon the income received from the dividends of corporations which have already paid this tax.

We now come to the monopolistic holding company, the great trust organized like the Steel Trust, for the purpose of holding the stock of other constituent companies, with a view to controlling and monopolizing production in certain lines. Such an organization is not sustained by any moral consideration and is against public policy and the spirit of the interstate commerce law.

The objection made to taxing such a company is that you give sanction to it, or, at all events, recognize it as a legalized form of combination. You may not sanction it; but you, by the law, recognize its existence. You recognize that existence without reprobation. Such an organization has a privilege of vast value, if it is to be regarded as legal; for, whilst it has no property except the stock of other corporations and no income except that which it derives from other corporations which may pay the tax, yet the privilege of combination itself is one of vast value. You cannot reconcile the exemption of such a corporation from a direct excise tax upon that vast privilege under this proposed law.

Therefore, it seems to me, the only way to do is to support the amendment of the Senator from Minnesota, to withdraw this particular exemption of income from the bill, and afterward to shape the bill in such a way as to permit the exemption of the income derived from stocks owned by insurance companies or savings banks organized for profit; to permit the exemption of the income derived by these great holding railroad corporations from the dividends of other corporations subsidiary to it, and then, if we propose to recognize also the only form of holding companies that is subject to criticism—the holding corporations organized for monopolistic purposes—we should frame a tax especially designed to reach the value of the great privilege which they enjoy.[2]

The income-tax law of 1913, however, defined net income very broadly and provided for no special treatment of intercorporate dividends, which consequently remained fully taxable to the receiving corporation from March 1, 1913, onward. In the course of the House debate on the 1916 act, Representative Cordell Hull declared—

The dividends received by one corporation from the stock of another corporation are not exempted from the tax. This provision was based upon the policy that if a corporation desires to hold stock in another corporation, with all the corporate and business advantages arising therefrom, it should not object to paying taxes accordingly.[3]

So remained the state of the law till the War Income Tax Act of 1917 which introduced a special credit from corporate gross income for "the amount received as dividends upon the stock or from the net earnings of any other corporation * * * which is taxable upon its net income."[4] Observe, however, that the ordinary corporate income tax at 2 percent remained applicable to intercorporate dividends throughout 1917—see section 10 (a) of the Income Tax Act of 1916 as amended in 1917—and that an attempt in Congress to enact a general

[2] Cong. Rec., 44: 4232-4233.
[3] Ibid., 53; 509.
[4] Sec. 4 of the War Income Tax Act of 1917.

credit for intercorporate dividends was defeated, for reasons that clearly appear from the following exchange of remarks:

> Mr. KITCHINS. Is it not a fact that practically all the so-called holding companies of the corporations are organized for the purpose of getting all the subsidiary competing companies into a monopoly?
>
> Mr. LENROOT. Absolutely; and that is their very purpose, and this amendment would be putting a premium on that kind of corporation.[5]

The war excess-profits tax of 1917 completely exempted intercorporate dividends received from corporations already subject to income tax. The 1918 Revenue Act made the exemption for intercorporate dividends complete by providing that they were deductible whenever received from corporations already taxed thereon. From 1918 to 1934 intercorporate dividends received from domestic corporations and foreign corporations (more than half the gross income of which was derived within the United States), were either deducted from or credited against corporate gross income. In 1934 the credit was limited to dividends received from domestic corporations subject to Federal income taxation.[6] Corporations could no longer deduct dividends received from domestic corporations exempt from Federal income taxation or received from foreign corporations. The 1935 Revenue Act limited the deduction to 90 percent of such intercorporate dividends, and this limitation was increased to 85 percent by the Revenue Act of 1936, which provision is presently (September 1940) in effect. The 1936 act introduced a novel provision with respect to mutual investment trusts, which were authorized to claim full credit for all dividends paid out but no credit for dividends received.

Under the excess-profits tax enacted by the second Revenue Act of 1940 all intercorporate dividends (whether derived from domestic or foreign corporations) were excluded from base of income from which "excess profits" are to be computed.

To summarize the taxability of intercorporate dividends in the hands of the receiving corporation: Prior to March 1913 and from 1918 through 1935 such dividends were not included in the taxable net income of corporations. From March 1913 through 1917 they were fully taxable under the ordinary corporate-income tax. In 1917 they were excluded from the corporate income subject to the war-income tax of 4 percent and the excess-profits tax (at graduated rates).[7] Since 1936, 15 percent of intercorporate dividends have been subject to the Federal normal corporation-income tax.[8]

The avoidance of double taxation furnishes the basis for exempting from Federal taxation all or the major part of intercorporate dividends. According to this argument, the corporate profits out of which dividends are distributed had been previously taxed in the hands of the distributing corporation and to tax the dividends when received is to

[5] Cong. Rec., 55: 92494.

[6] Sec. 23 (p). In the ensuing debate on this modification Senator Borah argued for the complete elimination of the deduction of intercorporate dividends. See Cong. Rec., 78: 6467.

[7] The tax treatment of intercorporate dividends during this interim (1913–17) is somewhat complicated by the fact that under the 1917 act the rate of the tax on dividends varied with the rate prevailing during the period when the dividends were presumably earned by the distributing corporation. Thus dividends received in 1917 were taxed at (a) 1 percent when paid out of earnings of 1913–15 and (b) 2 percent when paid out of earnings of 1916–17.

[8] During the life of the surtax on undistributed profits (1936–38), discussed in the following chapter, intercorporate dividends were fully included in taxable net income, against which, of course, the corporation was entitled a special credit for all taxable dividends distributed.

tax the same income twice. It is obvious that the case is not of 100-percent double taxation, for the amount distributed, according to the argument, must already have been reduced pro rata by the amount of the tax paid thereon by the distributing corporation.[9] It is also obvious that the taxation of intercorporate dividends involves no double taxation in any constitutional sense since the taxable units are different corporate entities.

But the argument of double taxation may have little to do with the taxation of intercorporate dividend as a matter of national economic policy. Intercorporate affiliation is the consequence of the exercise of a highly valuable privilege—the right of one corporation to own stock in another corporation with incidental control and resulting profits—with which corporations have been endowed by State law. And such a legal privilege may be appropriately taxed.

MAGNITUDE OF THE TAX CREDIT FOR INTERCORPORATE DIVIDENDS FOR CORPORATIONS OF VARYING INDUSTRIES, 1926–37

The importance of the special tax credit for intercorporate dividends for various industries in the years 1926 to 1937 is shown graphically in chart XIV. The lowest line of each industry graph shows the ratio of Federal tax to total corporate profits, disregarding the taxable character of specific sources of corporate profits (i. e., Government interest) and looking at each corporation as a separate entity—as they are in law, generally. The second layer shows the ratio of taxes to corporate profits less the credit for intercorporate dividends (100 percent in 1931–35 and 85 percent in 1936–37). The area between the first and second ratio shows the extent to which the Federal revenue acts have dealt with intercorporate affiliation by totally or partially exempting the income resulting from such relationships (i. e., intercorporate dividends) from taxation in the hands of the recipient corporations. If such dividends income had not been exempted from or credited against net income on the rationale of "double taxation," corporate taxes would, in fact, have been higher by the amount of the cross-hatched area. It is the scope of this credit which is of particular importance in the present section.

Before examining the industrial and size characteristics of this credit, it would probably be in the interest of clarity to complete the description of the chart, although the other layers are of interest only in the succeeding sections of this chapter. The third ratio shows taxes as percent of corporate profits less the credit for intercorporate dividends and less the amount of interest received on governmental securities.[10] The fourth line (found only for 1932 and prior years) shows the ratio of taxes to corporate profits less the credits for investment income and the deduction of prior years' losses; the variation between the third and fourth lines shows the relative importance of the prior years' loss deduction. For the years 1926–32, inclusive, the

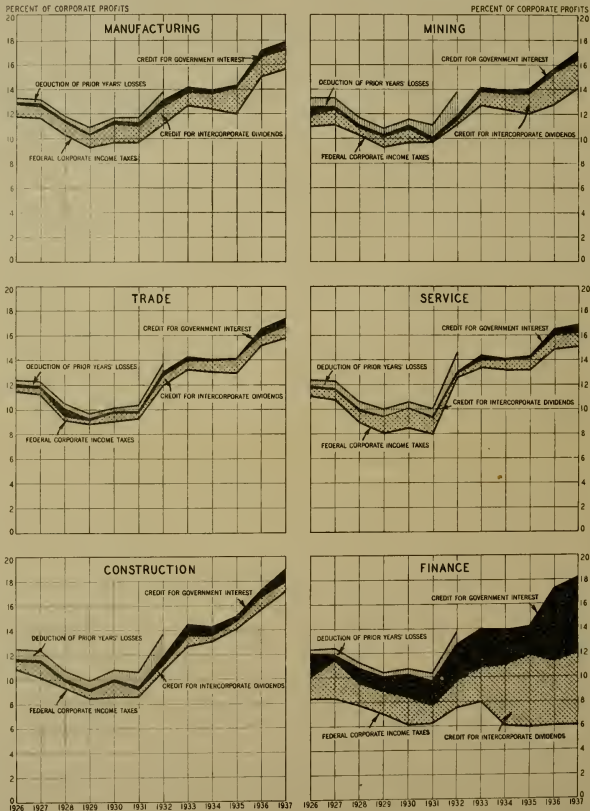
[9] It is also apparent that the double-taxation argument assumes that the Federal taxes paid by the distributing corporation equally or proportionally affect the profits that are distributed as dividend, and the profits that are reinvested in or by the earning corporation. Only the latter may be visibly affecteds at least in the short run, if the dividends distributed continue in the same or greater volume. Unless dividends are actually diminished by income taxes paid by the distributing corporation, it is difficult to regard the same as falling on the corporate stockholder until the final day of reckoning (which may be indefinitely postponed).

[10] Since 1936 the third ratio also excludes from the denominator the amount of the excess-profits tax, which is usually very slight in dollars (except in the smaller size classes). See infra. pp. 69–70.

CHART XIV

FEDERAL CORPORATE INCOME TAX PAYMENTS AND SPECIAL CREDITS FROM NET INCOME, BY INDUSTRIES, 1926-37

(NET INCOME-TAX RETURNS ONLY)



NOTE.—Federal corporate income taxes include the normal tax for all years, the excess profits tax since 1933, and the undistributed profits tax for 1936-37.

Source: Computed from Statistics of Income for respective years.

Department of Commerce.

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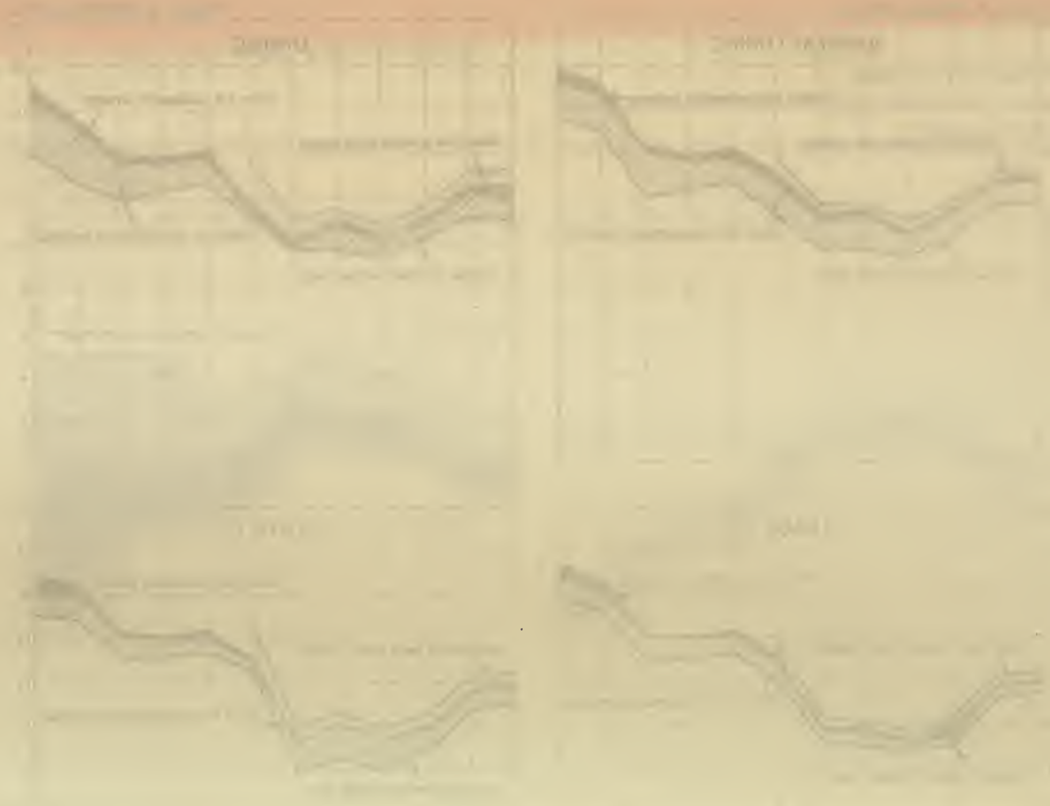
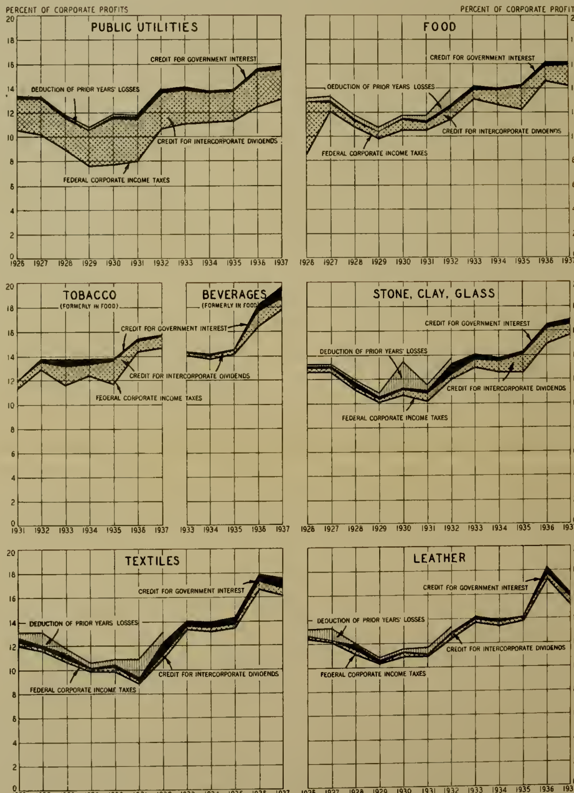


CHART XIV—Continued

FEDERAL CORPORATE INCOME TAX PAYMENTS AND SPECIAL CREDITS FROM NET INCOME, BY INDUSTRIES, 1926-37

(NET INCOME TAX RETURNS ONLY)



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NOTE.—Federal corporate income taxes include the normal tax for all years, the excess profits tax since 1933, and the undistributed profits tax for 1936–37.

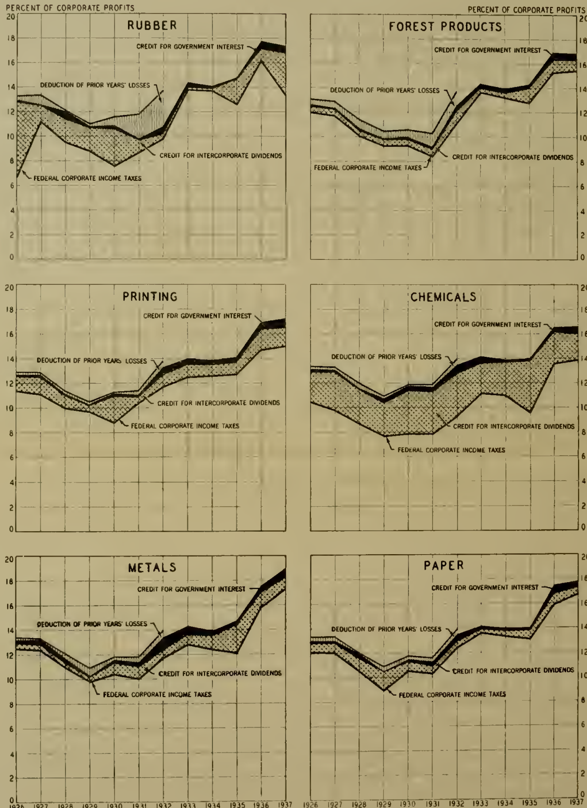
Source: Computed from Statistics of Income for respective years.

Department of Commerce.

Chart XIV—Continued

FEDERAL CORPORATE INCOME TAX PAYMENTS AND SPECIAL CREDITS FROM NET INCOME, BY INDUSTRIES, 1926-37

(NET INCOME TAX RETURNS ONLY)



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Note.—Federal corporate income taxes include the normal tax for all years, the excess profits tax since 1933, and the undistributed profits tax for 1936–37.

Source: Computed from Statistics of Income for respective years.

Department of Commerce.

fourth line gives the effective tax rate (i. e., taxes as percent of legal income), while this rate is given by the third line for the years 1933–37.

It is readily apparent from the chart that the tax credits vary considerably from industry to industry and also from year to year in any given industry. The increase in importance of these tax credits to an industry reflects the diminishing importance of operating income to that industry and the increasing importance of intercorporate affiliation and investments in governmental securities, as in finance, public utilities, mining, and such manufacturing industries as rubber and chemicals. There is no necessity for reciting at length in the text what is apparent from inspection of the charts.

The size characteristics of the intercorporate dividends credit are shown in chart XV for the years 1931–37.[11] Each year is shown as a pyramid consisting of 9 sectors (1931–35) or 10 sectors (1936–37), each representing 1 size class (identified by numbers 1 to 10), with the smaller corporations on the left, the larger corporations on the right, and the medium-sized corporations in between. Otherwise the construction of the chart closely parallels that of chart XIV which has been described in detail in the foregoing paragraphs.

An examination of chart XV shows that the size patterns of the corporate normal income tax falls into four district periods:

(1) 1931, when the effective tax rate (i. e., after all credits for investment income) was steeply progressive—that is, the magnitude of the rate varied directly with corporate size. The explanation of this progressive pattern is to be found primarily in the special exemption of a minimum amount of net income ($3,000) available to corporations with net income under $25,000.[12]

(2) 1932, when the effective tax rate (after all credits for investment income) was relatively flat or very slightly progressive. The slightly progressive shape of this pyramid may be attributed to the special deduction available to corporations with fluctuating income (usually smaller corporations), which were permitted to deduct prior years' operating losses.[13]

(3) 1933–35, when the size pattern of effective rates (after all credits for investment income) was relatively flat. The chart clearly shows, especially in the case of the large corporation, the growing importance of the credit for intercorporate dividends.[14]

(4) 1936–37, when the effective rate of the normal tax (after all credits for investment income) was again somewhat progressive—although, it should be noted, not at all to the extent of the 1931 pattern. The change in the revenue acts between 1936–37 and the revenue acts applicable to 1934–35 was to lower the normal tax on the smaller corporations, particularly with assets under $100,000 and to leave substantially unchanged the effective tax rates for the medium-sized and larger corporations.

It is obvious from an inspection of the chart that, aside from the slight progression in the statutory rates of the normal tax, the major factors contributing to the size shape of 1936–37 tax pyramids was the credit for 85 percent of intercorporate dividends. The magnitude of

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[11] No size data are available for earlier years.

[12] Supra, pp. 23–24.

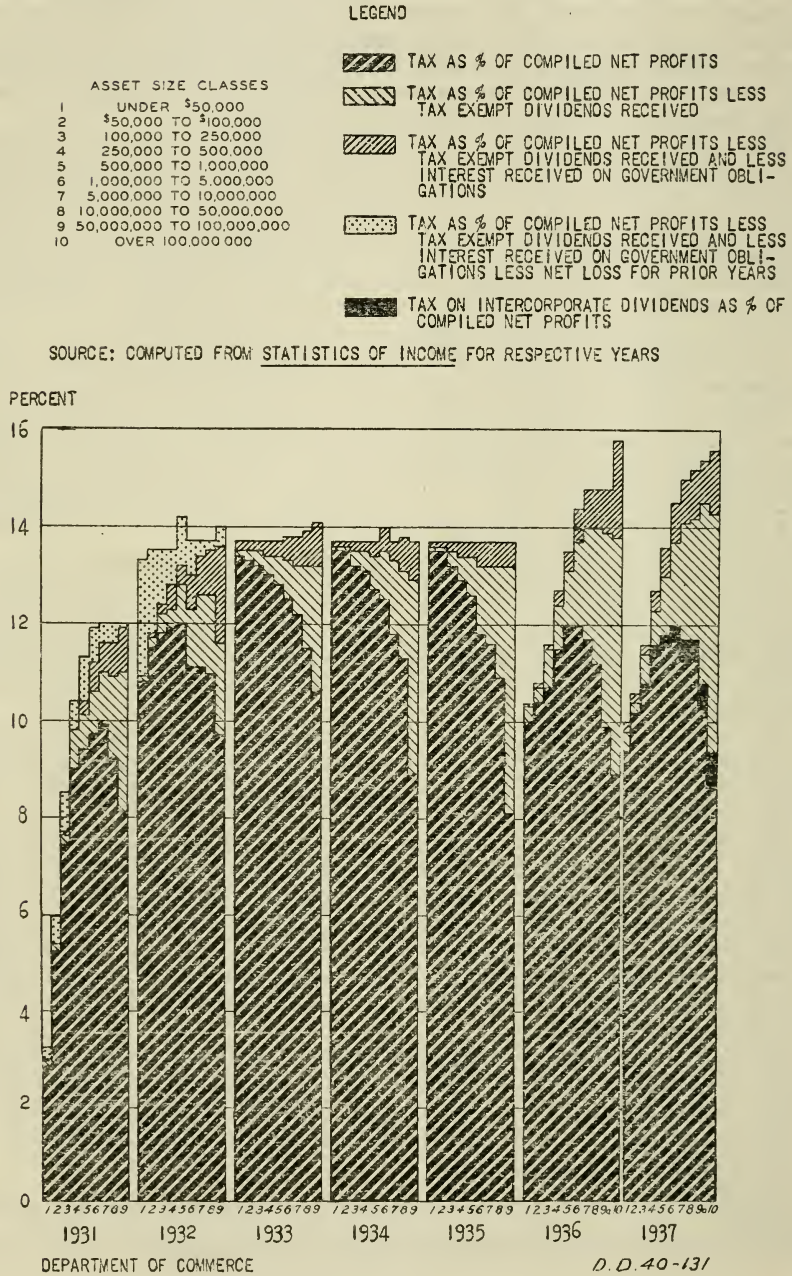
[13] This factor has been discussed at length in the previous chapter (supra, pp. 36–38) and is not of further concern here.

[14] The 1934 abolition of the consolidated tax returns privilege, in which intercorporate transactions were eliminated, contributed in part to the statistical increase of intercorporate dividends.

CHART XV

FEDERAL (NORMAL) CORPORATE INCOME TAX PAYMENTS AS PERCENT OF PROFITS OF CORPORATIONS OF VARYING SIZE, 1931-37

(RETURNS WITH NET INCOME ONLY)



this special credit shows a distinct tendency to vary directly with corporate size—that is, the larger the corporation the greater the credit claimed for intercorporate dividends. This credit is not quite so extensive in 1936–37 as it was in prior years when all dividends received from domestic corporations subject to tax were credited against or deducted from net income under the normal tax.

When the size pyramid for 1937 is broken down by industries, the general size pattern is naturally substantiated with a few interesting extremes. See chart XVI. In a few industries (construction, tobacco, textiles, and clothing) the credits for intercorporate dividends and for Government interest were relatively unimportant, even in the largest size classes. In the case of such major industries, however, as manufacturing, mining, service, and finance, it is obvious that the special credit for intercorporate dividends played a very major role for the largest corporations. This observation is also applicable to such manufacturing industries as food, forest products, chemicals, petroleum, stone-clay-glass, metals, and motor vehicles, while the credit for intercorporate dividends was relatively unimportant to public utilities (except the very largest size class), beverages (except the very largest size class), leather, rubber, paper and printing, and, as already noted, in construction. The surprisingly small role of the intercorporate dividend credit for public utilities results in part from the fact that the consolidated returns privilege is still available to railroads and related common carriers, resulting in the complete elimination of intercorporate transactions (including intercorporate dividends).

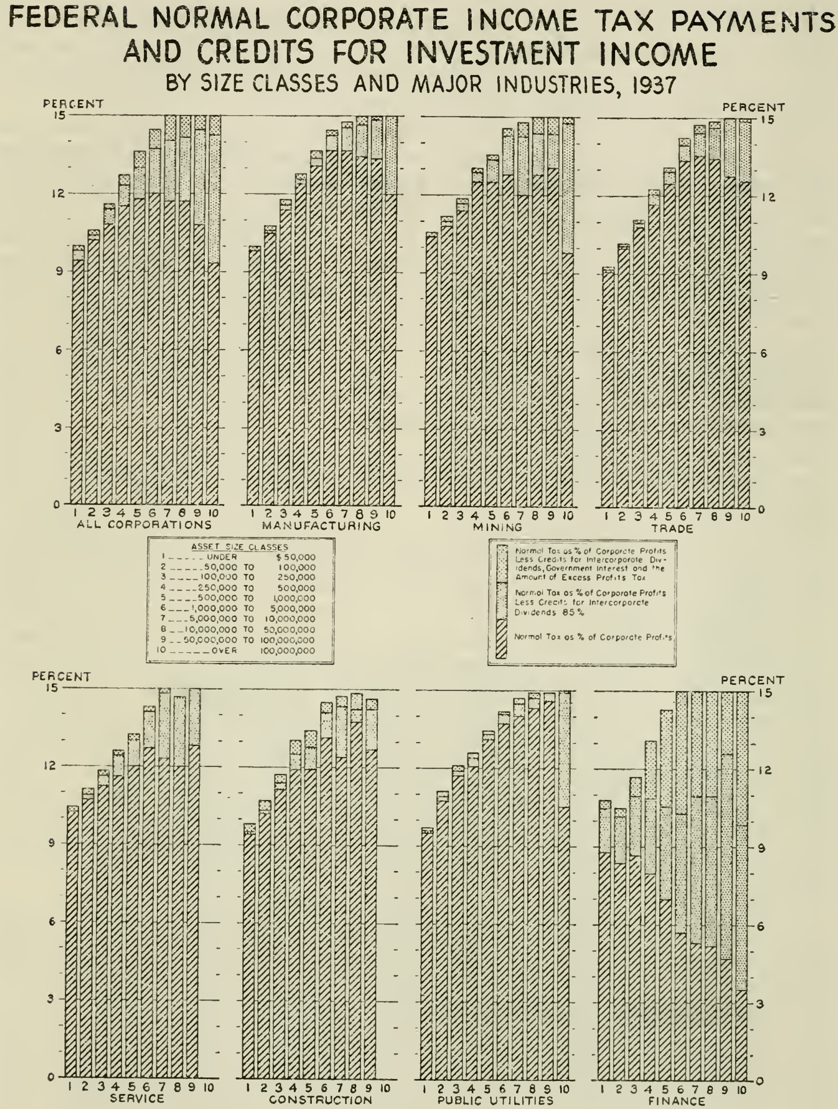
The industrial comparison is given in greater detail for 91 groups in chart XVII (the construction of which is substantially similar to that of charts XV and XVI). The credit for intercorporate dividends is most prominent among the various types of financial corporations—insurance, banks, and investment trusts. But the dividend credit was also quite important to a number of nonfinancial corporations—notably electric light and power, motor vehicles, airplanes, sugar, steam railroads, chemicals, and petroleum. The role in other industries is apparent from inspection of the chart and therefore need not be elaborated.[15]

The partial taxation of intercorporate dividends under the Revenue Act of 1936 and subsequent years probably has operated as a mild deterrent to holding companies and related forms of interaffiliated corporations. At the time of its introduction into the Revenue Act of 1935 the limited taxation of dividends was conceived primarily as an auxiliary enforcement device of the graduated rate structure which was introduced at the same time. Without a tax on intercorporate dividends, it was considered, corporate taxpayers might be tempted to evade the graduated tax rates by splitting one corporation into several corporate entities for the purpose of reducing the size of each corporation's income. To this extent the limited taxation of intercorporate dividends is probably effective.

The "mild" character of the deterring effect on holding companies of the present method of taxing intercorporate dividends can be easily

[15] The influence of the statutory graduation of the rate structure (of the 1936 Revenue Act) in specific industries can be observed by comparing the effective tax rate (i. e., normal tax as of corporate profits after all credits for dividends and governmental interest). In pipe lines, office equipment, railroads (steam and electric), light and power, motor vehicles—all industries that are characteristically organized on large scale—the effective rates of the normal tax are relatively high, while the rates are relatively low for construction and service—both industries characteristically organized as small-scale enterprises.

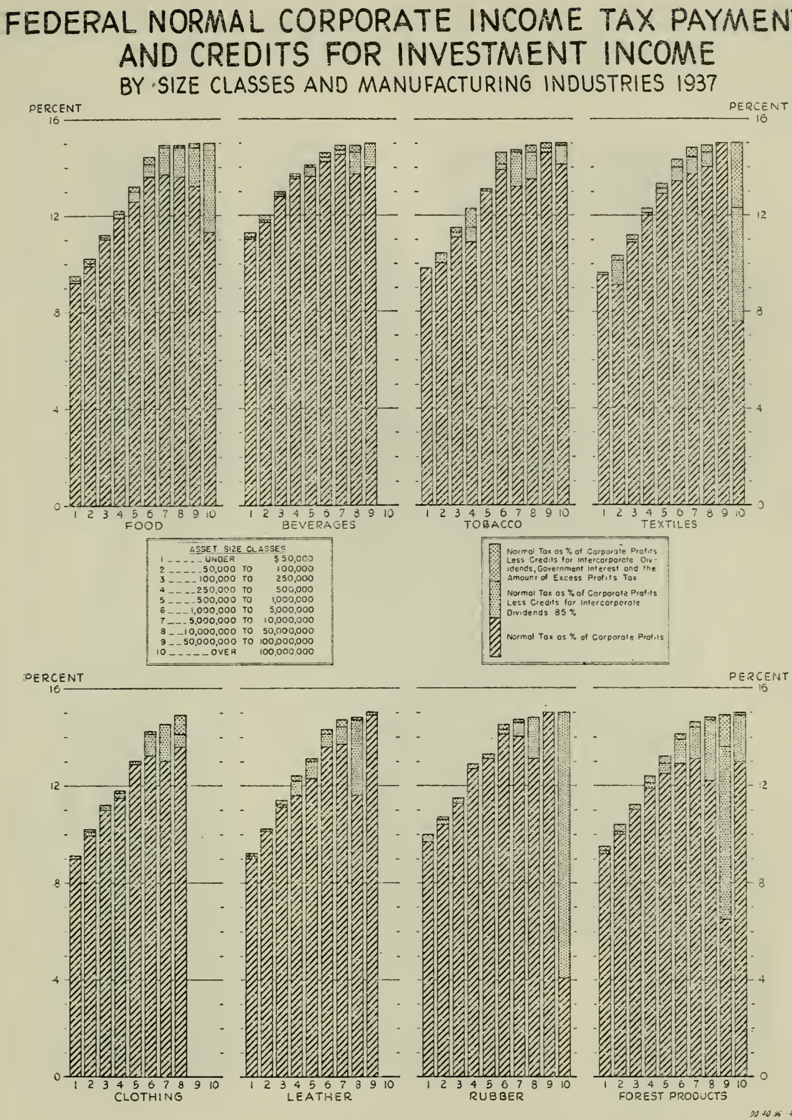
CHART XVI



Source: Computed from the Sourcebook of the Statistical Section of the Bureau of Internal Revenue. Department of Commerce.

substantiated by an examination of the actual tax rates. Only 15 percent of intercorporate dividends is at present subject to Federal taxation; the remaining 85 percent is tax exempt. This partial taxation of intercorporate dividends was at most equivalent (*a*) in 1936–37 to a tax of 2.3 percent of all dividends received from domestic corporations, (*b*) in 1938–39 to a tax of 2.5 percent, and (*c*) in 1940 to a tax of 3.6 percent. The partial taxation of intercorporate dividends can be measured only indirectly and somewhat roughly for 1937 (shown

CHART XVI—Continued



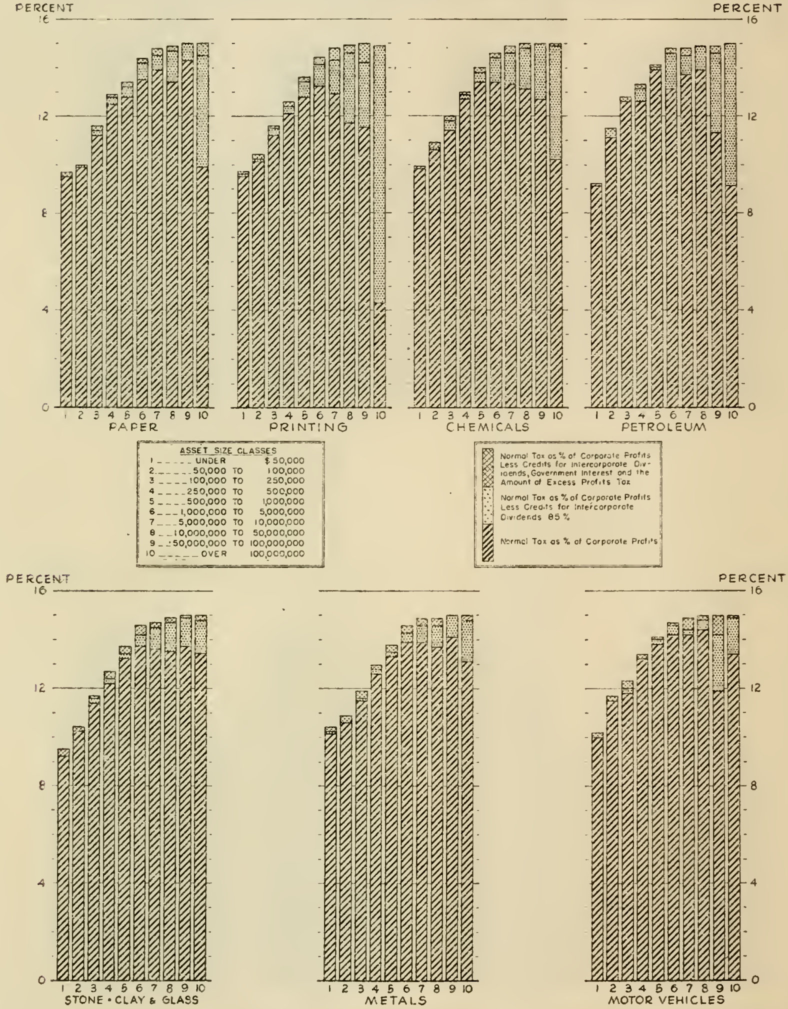
Source: Computed from the Sourcebook of the Statistical Section of the Bureau of Internal Revenue. Department of Commerce.

as cross hatching superimposed on the area representing the tax-profits ratio). As expected, the intercorporate dividend tax was substantially nonextant, or at least it could not be shown graphically in the smallest size classes (assets under $100,000) and it increased in magnitude directly with corporate size.

CHART XVI—Continued

FEDERAL NORMAL CORPORATE INCOME TAX PAYMENTS AND CREDITS FOR INVESTMENT INCOME

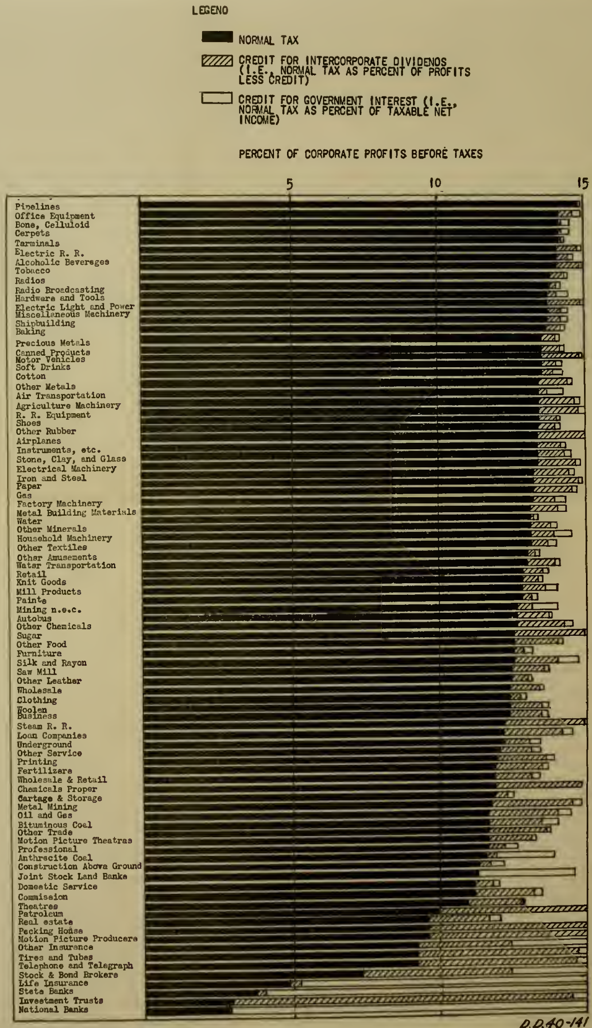
BY SIZE CLASSES AND MANUFACTURING INDUSTRIES 1937



Source: Computed from the Sourcebook of the Statistical Section of the Bureau of Internal Revenue, Department of Commerce.

CHART XVII

FEDERAL (NORMAL) CORPORATE INCOME TAX PAYMENTS AND CREDITS FOR INVESTMENT INCOME BY MINOR INDUSTRIES, 1937



Source: Computed from the Sourcebook of the Statistical Section of the Bureau of Internal Revenue.

Department of Commerce.

There is some evidence to indicate that intercorporate affiliations have been slightly declining in importance, in part perhaps as a consequence of the limited taxation of intercorporate dividends. The data, for whatever they may be worth, are presented in the following table:

TABLE V.—*Magnitude of intercorporate dividends, 1935–37*

	1935	1936	1937
I. DIVIDEND RECEIVED BY ALL CORPORATIONS			
Amount (millions of dollars)	3,013	2,677	2,682
Percent of corporate receipts	2.63	2.02	1.88
Percent of cash dividends paid out	50.60	36.30	35.70
II. DIVIDENDS RECEIVED BY NET-INCOME CORPORATIONS			
Amount (millions of dollars)	1,492	2,504	2,515
Percent of corporate receipts	1.92	2.38	2.30
Percent of cash dividends paid out	32.10	34.90	34.40

Source: Computed from Statistics of Income for respective years.

But the evidence is not very conclusive. The record of all corporations as a group, including the profitable and the unprofitable, indicate between 1935 and 1937 a drop in the absolute amount and in the relative magnitude of intercorporate dividends. If only the net-income corporations are considered, there is, on the contrary, a substantial increase in both the absolute amounts and in the relative magnitude of intercorporate dividends. The partial taxation of intercorporate dividends may have played a role, among other factors,[16] in specific instances of the simplification of corporate structures that have recently been taking place.[17] The effect of the intercorporate dividend tax has on the whole been rather negligible.

CORPORATE INVESTMENT IN GOVERNMENT SECURITIES

Corporations have been acquiring securities issued by governmental units—Federal, State, and local—and have successfully claimed an exemption for all interest derived from such securities during most of the life of the Federal corporation income tax. The basis for this exemption in the case of interest received from State and local obligations rests presumably on that traditional doctrine of American constitutional law which forbade the members of a Federal system from taxing one another. This basis is "presumed" only, for such interest was fully taxed under the corporation excise tax of 1909, with the specific approval of the United States Supreme Court in *Flint* v. *Stone Tracy*.[18] But the general income tax law of 1913 exempted

[16] A novel provision was introduced into the capital-gains provision of the 1935 Revenue Act (sec. 110 (a)) for the purpose of facilitating the simplication of corporate structures by exempting from tax all property received by one corporation on the complete liquidation of another corporation. This provision that the receipt of such property shall not result in a taxable capital gain has been limited to cases where the receiving corporation owned 80 percent of the voting stock of the liquidating corporation. See Internal Revenue Laws, sec. 112 (b) (6), and Regulations 103, sec. 19.112 (b) (6)-1-5.

Under the 1938 Revenue Act (sec. 371) it is expressly stipulated that no recognition as to gain or loss shall be given to exchanges of stocks or securities "in obedience to an order of the Securities and Exchange Commission."

[17] Facing the Tax Problem (at p. 547) cites a few specific corporate systems which allegedly abandoned subsidiaries because of the taxation of dividends.

[18] 220 U. S. 107 (1911): "Where a tax is lawfully imposed upon the exercise of privileges within the taxing power of the State or Nation, the measure of such tax may be the income from the property of the corporation, although a part of such income is derived from property in itself nontaxable." At p. 163. To this extent the *Pollock case* (157 U. S. 429) was modified.

from corporate profits all interest received on State and local obligations.

Interest received on Federal securities has likewise been exempt in order "to keep faith" with the declaration of exemption usually contained in the various acts under which some obligations were issued. The exemption clause has usually been believed to have enabled the Federal Government to obtain loans at lower interest rates, but it is a moot question whether the revenue gained—through lower interest rates—is less or greater than the revenue lost—through tax exemption.

In 1917 natural persons were required for surtax purposes to include in their taxable net income all interest received on Federal obligations unless such interest was specifically exempt under the act authorizing the issue of such obligations—namely, all United States bonds, except pre-war issues, and securities issued by Federal instrumentalities (except Federal land banks, joint-stock land banks, and intermediate credit banks). This provision did not apply to corporations. In 1933, however, the interest received upon Federal obligations, which was subject to the surtax on individuals, became subject to the present excess-profits tax on corporations. As will be pointed out in the following chapter, this change was relatively unimportant since the corporations obtaining considerable income from such sources are large in size and consequently are not likely to pay any excess-profits tax at all.

The aggregate amount of interest received by corporations from governmental securities has been very substantial and in fact has been increasing in recent years. In 1937 corporations with net income reported receipts from governmental securities in the amount of $429,000,000, while individuals reported at least $301,000,000. Since individuals are not required to report their income from wholly tax-exempt securities, it is obvious that the latter figure involves a substantial underestimate. The estimated distribution of tax-exempt securities by classes of holders is shown in the following table, as of June 30, 1937:

TABLE VI.—*Estimated distribution of tax-exempt securities by classes of holders, June 30, 1937*

[In billions of dollars]

	Wholly exempt			"Partially exempt" U. S. Government and Federal instrumentalities	Total
	State and local	Federal instrumentalities	U. S. Government		
Government and their agencies, trust funds, sinking funds, and investment funds and Federal Reserve banks	4.3	0.8	3.5	6.5	15.1
Active banks, excluding mutual savings banks	2.8	.3	5.9	8.7	17.7
Insurance companies	1.8		1.3	3.7	6.8
Other corporations	.8	.1	1.1	.8	2.8
Mutual savings banks	.8		.3	2.1	3.2
Other tax-exempt institutions	.5		.1	.4	1.0
Individuals	8.3	1.0	2.9	6.8	19.0
Total	19.3	2.2	15.1	29.0	65.6

Source: Hearings before the House Ways and Means Committee, 76th Cong., 1st sess., on Proposed Legislation Relating to Tax-exempt Securities, p. 29. More recent figures (as of June 1938) for Federal securities may be found in the Treasury Bulletin for February, 1939, p. 22.

Taking all net-income corporations as a group, the magnitude of the credit for governmental interest claimed by corporations under the Federal normal corporation income tax varies directly with corporate size—the larger the corporation, the larger the credit for Government interest. See chart XV. This size variation is by no means as pronounced as the size variation of the credit for intercorporate dividends, although in recent years it has become more accentuated. This tendency is readily evident from a comparison of the 1936–37 patterns with that of the 3 previous years (1933–35).

When the size patterns are broken down by industries (see charts XVI and XVII), however, it is found that the Government interest is of great importance only to the financial group of corporations where it equals—if not exceeds—the credit for intercorporate dividends. It was relatively of no importance to other major industries or to the various manufacturing industries.[19]

By exempting Government interest from taxation under the normal tax the Federal revenue acts have, by design or not, encouraged the large financial corporations to acquire extensive holdings in governmental securities.

[19] It should be pointed out that the area on the graphs technically does not wholly consist of credits for governmental interest but also includes a credit for the amount of the excess-profits tax.

CHAPTER V

FEDERAL TAXATION OF "EXCESS PROFITS" AND UNDISTRIBUTED PROFITS

The Federal normal corporation income tax, which was considered at length in the two previous chapters, is only one out of several Federal taxes based upon or related to corporate profits. Although in magnitude the normal tax accounts for the major share of both Federal revenues derived from corporate profits (85 percent in 1936–37) and tax payments made by individual corporations. The excess-profits tax and the surtax on undistributed profits, however, have had important effects upon corporate attitudes, profits, and methods of financing, and these effects have varied with corporate size and the nature of the industries.

EXCESS-PROFITS TAX: PREMIUM ON THE PREDICTABILITY OF CORPORATE PROFITS

The present excess-profits tax, which was initially enacted by the National Industrial Recovery Act of 1933, is an excess-profits tax in name only, thoroughly unlike its namesake of the war period.[1] Essentially, the present excess-profits tax is the lesser of a pair of Siamese twins, the better half of which is the capital-stock tax enacted at the same time, and functions as a whipping boy for the latter. The capital-stock tax of 1933 was imposed "upon every domestic corporation with respect to carrying on or doing business for any part of such year," at the rate of "one dollar per thousand dollars of the adjusted declared value of its capital stock."

The corporation may choose any value of the capital to be declared, but if the declared value was excessive in relation to the corporation's earning capacity it found itself subject to an excess-profits tax in 1933–35 of 5 percent of all profits in excess of 12½ percent of its declared capitalization and, in 1936, of 6 and 12 percent of those profits which were 10 and 15 percent, respectively, in excess of declared capital. Having once made a declaration of capital, it was assumed that such a declaration would be more or less binding on the corporation for a definite time, subject to a few adjustments of a very specific character. As a matter of fact, however, the corporations have been able to make a redeclaration of capital in 1934 and 1936. The 1938 act introduced the concept of a 3-year period for which the declaration of capital should be binding, and of course afforded an opportunity for a new declaration. Notice, however, that in 1939 and 1940, a corporation was allowed to revise its declaration upward, thus minimizing the excess-profits tax, and, of course, in 1941 a new 3-year declaration is scheduled to be made.

[1] See appendix A.

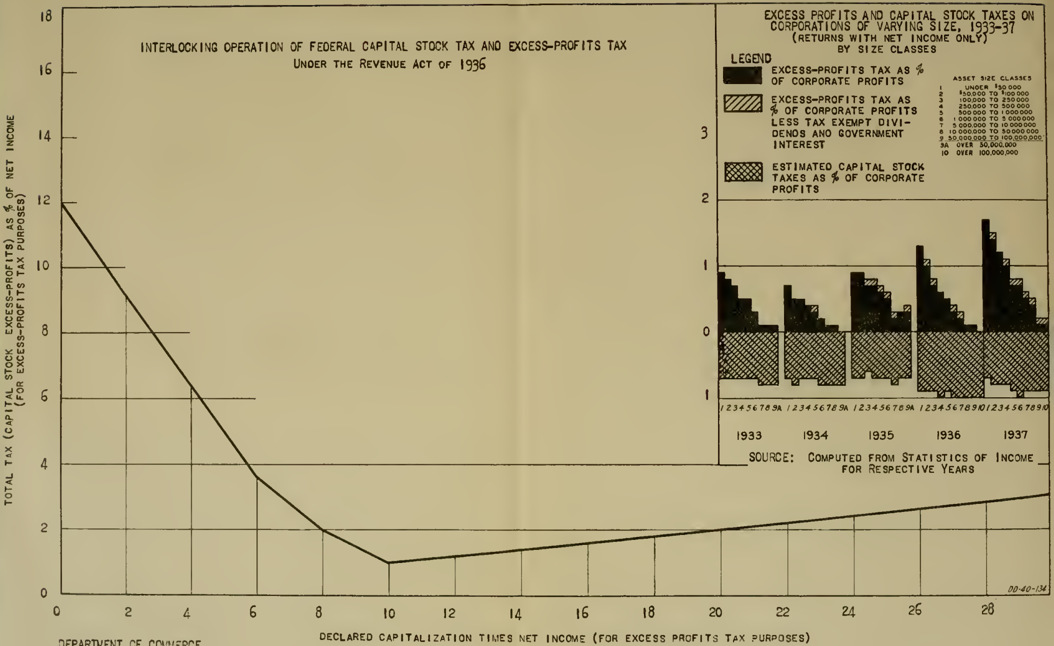
Since the corporation may freely report any capitalization figure that suits its needs, it is to its advantage to select a figure which is approximately 8 times (1933–35) or 10 times (1936 and subsequent years) its expected earnings during the coming years. If the capitalization figure is higher than this ratio to earnings its capital stock tax is pro rata heavier than it need be in order to avoid payment of an excess-profits tax. If the capitalization figure is less than this ratio to corporate earnings, the resulting lightness of the capital stock tax will be more than offset by an excess-profits tax. It is always preferable to pay the capital-stock tax—at the rate of $1 per thousand of invested capital, which is the equivalent of a tax at 1 percent of taxable net income—to paying the excess-profits tax at the rate of 6 to 12 percent of taxable net income provided the future earnings are given.

The selection of favorable capitalization figures depends obviously on the accuracy with which earnings may be forecasted, a factor which varies with the economic skill of the corporate managers, the stability or fluctuation of corporate profits in different industries, and the chances of a particular corporation to make profits in any given year. If in doubt the corporate managers may prefer to avoid or reduce a present tax liability (the capital-stock tax) to a contingent liability (the excess-profits tax) if their profit equation should turn out better than they expected. It must not be overlooked, however, that the rate of the excess-profits tax is of a very high-powered character compared to the mild rate of the capital stock tax, so that an underpayment of the capital-stock tax may result in an exceedingly high excess-profits tax, while an overpayment of the capital stock will not ordinarily involve large amounts.

The interlocking operation of the Federal capital stock and excess-profits taxes are shown graphically in chart XVIII. The plotted line of the diagram shows the magnitude of the combined capital stock and excess-profits taxes measured as percentages of net income according to different assumptions as to the relationship of declared capitalization and net income.[2] It is obvious from this chart that the corporation's capital-stock-excess-profits taxes are minimized—at 1 percent of net income—if a capital stock tax is paid upon a declared capital 10 times earnings. It is equally obvious that, if the corporation is apt to err in forecasting profits upon which to file a declaration of capital, it is best to err toward an overdeclaration rather than toward an underdeclaration. An underdeclaration of capital, and consequent underpayment of the capital stock, leads to an excess-profits tax of rapidly increasing magnitude. Assuming constant earnings, an underdeclaration of 10 percent is equivalent to an overdeclaration of 50 percent, an underdeclaration of 20 percent is equivalent to an overdeclaration of 100 percent, an underdeclaration of 30 percent is equivalent to an overdeclaration of 180 percent, an underdeclaration of 40 percent is equivalent to an overdeclaration of 260 percent, an underdeclaration of 50 percent is equivalent to an overdeclaration of 400 percent, an underdeclaration of 60 percent is equivalent to an overdeclaration of 540 percent, an underdeclaration of 70 percent is equivalent to an overdeclaration of 680 percent, an underdeclaration of 80 percent is equivalent to an overdeclaration of 820 percent, an underdeclaration of 90 percent is equivalent to an overdeclaration of

[2] For the formula, which was derived by Orvis A. Schmidt, see appendix B, sec. 1.

CHART XVIII



DEPARTMENT OF COMMERCE

960 percent, while a declaration of zero capital will subject the corporation to an excess-profits tax equal in magnitude to an overdeclaration of capital of 1,100 percent.

It is unfortunately not possible at the present time to examine for actual cases the interlocking effects of the Federal capital stock tax and the excess-profits tax upon the profits of corporations of various sizes and industries, since there are no data available on the size and industrial character of corporations choosing to pay the capital-stock tax and by what amount, or choosing not to pay it. It is believed possible, however, that certain crude estimates can be made of the magnitude of the capital stock tax from the present data on the excess-profits tax available in Statistics of Income. The results of these estimates are presented in chart XVIII, for all corporations with net income, classified by size of assets for the period 1933–37.[3]

From this chart it appears that the excess-profits tax shows a very marked tendency to vary inversely with corporate size, while the capital stock tax pattern characteristically exhibits only slight size variations. The regressivity[4] of the excess-profits tax has been steadily mounting since 1934, so that in 1937 the effective tax rate ranged from 1.7 percent in the case of corporations with assets under $50,000 down steadily step-by-step to less than two-tenths of 1 percent in the case of corporations with assets over $50,000,000. In 1933-35 the range of the regression did not exceed 1 percent of corporate profits while in 1937 the range was more than 1.5 percent. Stated differently, the magnitude of the excess-profits tax paid by the smallest corporations was more than eight times that of the excess-profits tax paid by the largest corporations. This chart indicates that the regression of the excess-profits tax, standing alone, is hardly offset by the interlocking capital-stock tax, because of the grossly disparate rate structure of the two taxes.

The chart also shows clearly that the credits for corporate profits derived from intercorporate dividends and for Government[5] interest are quite insignificant in the operation of the excess-profits tax, and naturally so. The magnitude of the excess-profits tax varies inversely with the corporate size—that is, the larger the corporation the smaller its excess-profits tax (the excess-profits tax may be wholly nonextant in the larger size classes)—whereas the relative magnitude of corporate profits derived from intercorporate dividends and Government interest for which special credits may be available under the revenue act, varies directly with corporate size—that is, the larger the corporation, the more likely it is to obtain a relatively larger amount of its profits from intercorporate dividends and Government interest.

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[3] For the method of estimating the magnitude of the capital-stock tax, see appendix B, sec. 2.

[4] The terms "regressivity" "regression," and "regressive" as used throughout this chapter refer to the inverse relationship between the magnitude of the tax ratios and corporate size. In other words these terms mean only that the tax rato is smallest on the large corporations and largest on the small corporations, and nothing more is meant, or implied, in this connection.

[5] The credit for Government interest under the excess-profits tax does not include interest received on the United States saving bonds and Treasury bonds owned in principal amount of over $5,000 and obligations of instrumentalities of the United States which were not exempt from taxation by the respective congressional acts authorizing the issurance of such obligations. Such partially tax-exempt interest in 1937 amounted to $201,477,000 while wholly tax-exempt interest on governmental securities (State and local obligations, etc.) amounted to $210,320,000. It also should be noted that the credit for Government interest allowable under the normal tax and the surtax on undistributed profits has never included Government interest of either character (except under the excise tax of 1909).

The general pattern of regressivity exhibited by the excess-profits tax for all corporations taken as a group, is largely confirmed in the industry-by-industry analysis shown in chart XIX. In only one industry (tobacco) does the excess-profits tax appear to exhibit no size variation, while in another industry (rubber) the effective rate of the excess-profits tax on the medium-sized corporations appears heavier than on the smaller corporations. In all other industries the excess-profits tax appeared markedly regressive in 1937. The regressivity of the excess-profits tax is particularly accentuated in construction, forest products, stone, clay, and glass, where the rate on the smaller corporations (with assets under $100,000) is more than 20 times that on the largest corporations, while in the case of motor vehicles the rate on the smallest corporations is 31 times the rate on the larger corporations (with assets from $5,000,000 to $10,000,000). With the single exception of construction (which has no corporations with assets above $10,000,000) the effective rates of the excess profits in the largest size classes was so small that they could not be graphically shown.

Chart XX presents a more detailed industrial picture of the considerable variation in the relative magnitude of the excess-profits tax in 1937. In fact this diagram shows that the differences among industries in the ratio of the excess-profits tax to corporate profits in 1937 were fully as great as the size differences. The highest ratio for an industry (air transportation) was 2.5 percent and the lowest; (telephone and telegraph) was less than 0.05 percent. The excess-profits tax was largest on construction, mining, heavy industry (e. g., machinery and tools, railroad equipment), air and water transportation—all industries characterized by fluctuating profits. The excess-profits tax was lowest on various public utilities—such as telephone and telegraph, railroads, electric light and power—on consumers' goods industries—such as tobacco, shoes, and food products. Other industries typically organized as large-scale enterprises report low excess-profits taxes—banks, motion-picture producers, investment trusts, anthracite coal, chemicals. The effect of the tax upon other specific industries is apparent from an inspection of the chart and need not be further elaborated here.

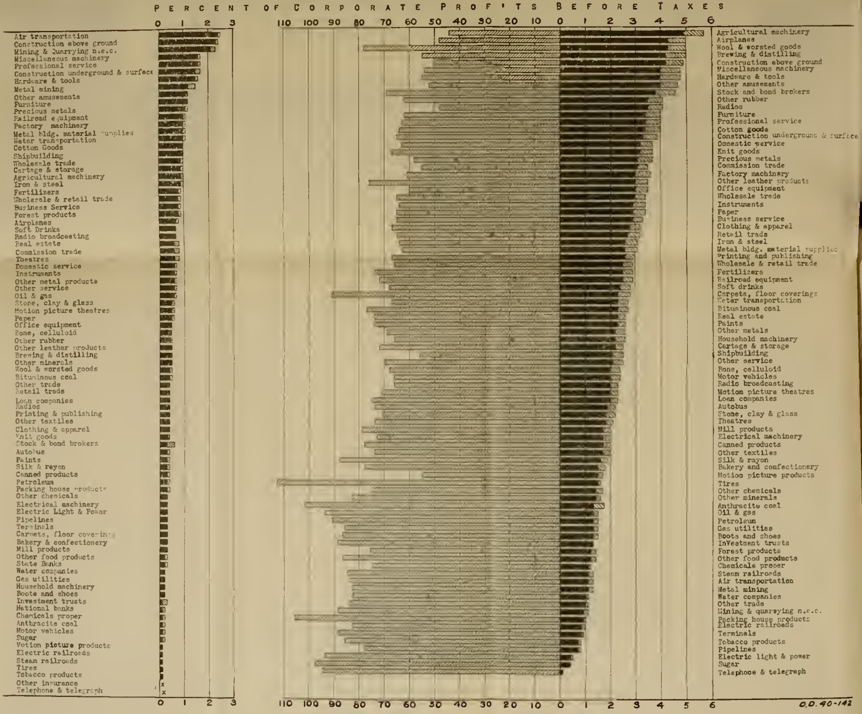
Although the excess-profits tax is usually small in actual dollars and cents, it is without question a very regressive tax on corporate profits. Yet its rate structure contains a slight graduation—6 to 12 percent—based on the amount of profits in excess of a stated proportion (10 and 15 percent, respectively) to declared capital. Such data as are at hand (see chart XVIII) do not indicate that the capital-stock tax compensates or neutralizes these regressive tendencies to any noticeable degree.

SURTAX ON UNDISTRIBUTED PROFITS: PREMIUM ON THE DISTRIBUTION OF CORPORATE PROFITS

During 1936 and 1937 the Federal Revenue Act imposed on corporations retaining the greater share of their profits, a tax, additional to the normal tax, ranging from 7 to 27 percent in accordance with the relative magnitude of undistributed profits. In 1938 and 1939 the tax rate of the undistributed profits was nominal (2.5 percent). Starting with 1940, when even this merest remnant disappeared, the

CHART XX

FEDERAL EXCESS-PROFITS TAX AND UNDISTRIBUTED PROFITS TAX PAYMENTS, CASH DIVIDENDS PAID OUT, AND CREDITS FOR INVESTMENT INCOME, BY MINOR INDUSTRIES, 1937



LEGEND:

- EXCESS-PROFITS TAX
- CREDITS FOR TAX-EXEMPT INCOME (i. e., EXCESS-PROFITS TAX AS % CORPORATE PROFITS LESS CREDITS FOR 85% OF INTER-CORPORATE DIVIDENDS AND WHOLLY TAX-EXEMPT GOVERNMENT INTEREST)
- X LESS THAN .05%

LEGEND:

- SURTAX ON UNDISTRIBUTED PROFITS
- CREDITS FOR TAX-EXEMPT INCOME (i. e., SURTAX AS % OF CORPORATE PROFITS LESS CREDITS FOR TAX-EXEMPT INTEREST AND THE AMOUNTS OF THE NORMAL AND EXCESS-PROFITS TAXES)
- CASH DIVIDENDS PAID OUT

Source: Computed from the Sourcebook of the Statistical Section of the Bureau of Internal Revenue. Department of Commerce.

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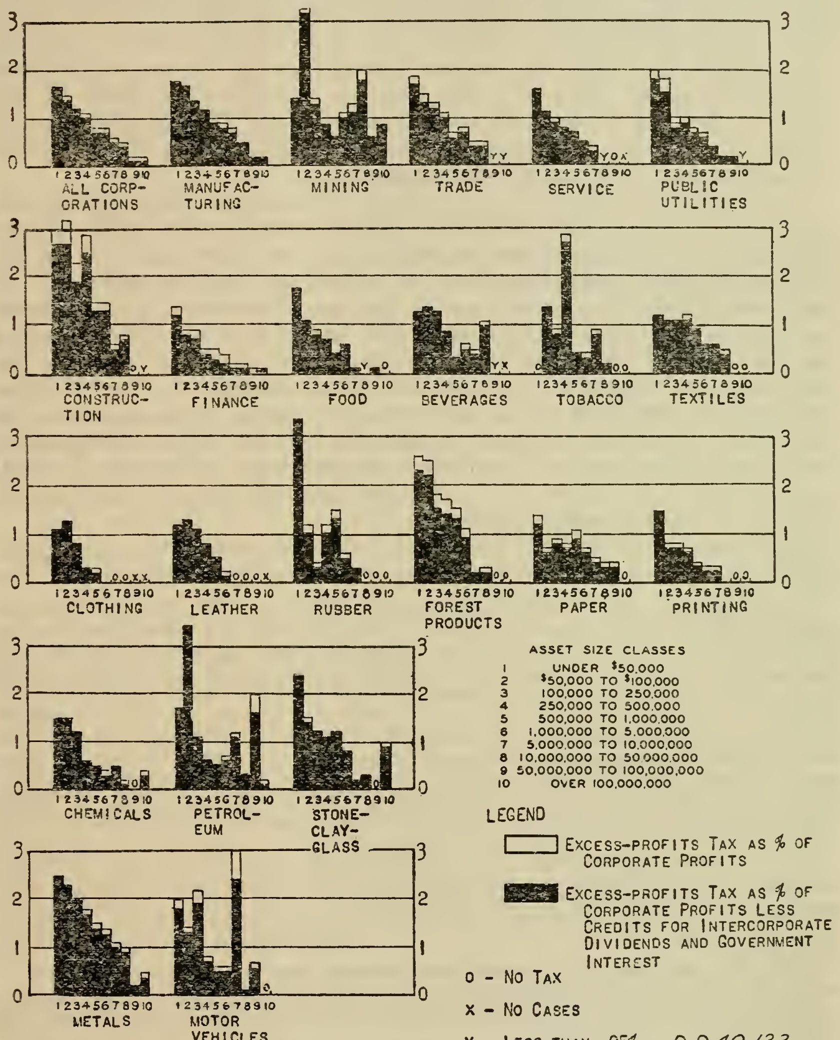
Chart XIX

FEDERAL EXCESS-PROFITS TAX PAYMENTS OF CORPORATIONS OF VARYING SIZE CLASSES AND INDUSTRIES, 1937 (RETURNS WITH NET INCOME ONLY)



Source: Computed from the Sourcebook of the Statistical Section of the Bureau of Internal Revenue. Department of Commerce.

Federal Revenue Act has become largely unconcerned with corporate policies as to the retention or distribution of profits to stockholders. This statement must be modified by one important—at least potentially important—proviso: Where the "unreasonable" magnitude of retained profits may be taken as prima facie evidence of a "purpose of preventing the imposition of the surtax upon its shareholders," the corporation may find itself subject to a surtax of 25 to 35 percent on the undistributed net income, under section 102 of internal revenue laws.[6] To this extent the undistributed-profits tax has now (September 1940) become an episode in the history of Federal income taxation. But it is not just an episode filed away in the archives for the purpose of accumulating dust. The undistributed-profits tax was an experiment in corporate-tax reform whose record of performance deserves careful scrutiny.

As originally conceived in the President's message sent to Congress on March 3, 1936, and to a substantial extent as drafted in the House bill,[7] the new tax plan contemplated the outright abolition of all existing Federal taxes based on or related to capital profits—i. e., the normal tax, the capital stock tax, and the excess-profits tax—and the substitution therefor of a new tax of a graduated character on that part of "corporate income (including dividends from other corporations) which is not distributed as earned * * *." The new tax was designed to (a) remove the "existing difference between corporate taxes and those imposed on owners of unincorporated businesses," (b) prevent avoidance of existing surtaxes by natural persons who can afford to leave corporate earnings undistributed, and (c) reduce corporate savings.

The problem of the undistributed profits of corporations, as Commissioner Helvering pointed out, was "no new development."

> It has received the attention and support of students of taxation from the earliest days of income taxation in the United States. Its principles were incorporated in our first income-tax law, 1862–71, when Congress provided that the gains and profits of corporations should be included in the annual taxable gains, profit, or income of any person entitled to them, whether divided or undivided. Shortly before and while the Revenue Act of 1921 was under consideration, a proposal identical in principle with the President's suggestion received the support of many representatives of organized business, Members of Congress, and the Treasury Department. The principle was recommended by Secretary of the Treasury Houston in his annual report for the year 1920. In somewhat modified form, it was incorporated in a bill passed by the Senate in 1924.[8]

The Senate, however, was reluctant at one stroke to abandon existing Federal taxes on corporate profits—the normal tax on corporation income being highly productive from a revenue viewpoint—and amended the House bill by (a) retaining all existing taxes on

[6] Under T. D. 4914 the Bureau of Internal Revenue has indicated that its tax auditors will closely scrutinize the following classes of corporations in order to determine the applicability of sec. 102:

"(1) Corporations which have not distributed at least 70 percent of their earnings as taxable dividends.

"(2) Corporations which have invested earnings in securities or other properties unrelated to their normal business activities.

"(3) Corporations which have advanced sums to officers or shareholders in the form of loans out of undistributed profits or surplus from which taxable dividends might have been declared.

"(4) Corporations, a majority of whose stock is held by a family group or other small group of individuals, or by a trust or trusts for the benefit of such groups.

"(5) Corporations the distributions of which, while exceeding 70 percent of their earnings, appear to be inadequate when considered in connection with the nature of the business or the financial position of the corporation or corporations with accumulations of cash or other quick assets which appear to be beyond the reasonable needs of the business."

Evidence is lacking at the moment as to efficacy of sec. 102 and its administrative enforcement.

[7] Union Calendar No. 944 of the 74th Cong., 2d sess.

[8] Senate Finance Committee, hearings on the 1936 Revenue Act, pp. 12–13.

For a fuller review of the legislative background of the problem of undistributed profits see the statement of Herman Oliphant reproduced in appendix C of this report.

corporate profits with some modifications as noted below and (b) superimposing thereupon a new surtax on the undistributed profits of corporation. The new surtax contained a severely graduated rate structure ranging from 7 percent to 27 percent of that portion of corporate profits (including all intercorporate dividends received and excluding interest received on Government securities) which was not distributed during the year as taxable dividends. The new surtax applied to all corporations not otherwise tax exempt except the following:

1. Banks.
2. Insurance companies.
3. Foreign corporations.
4. Corporations operating in the United States possessions.
5. China Trade Act corporations.
6. Joint-stock land banks.
7. Bankrupt, insolvent, or receivership corporations.

The first two problems which the undistributed-profits tax aimed at originally rose out of the constitutional dictate that "unrealized income" is not "taxable income," at least as conventionally construed in Supreme Court decisions.[9] The undistributed profits of corporations cannot be taxed to the stockholder, the courts have held, because he cannot dispose of such income until it is realized, i. e., paid out to him as dividends. A partner on the other hand, is taxed on his pro rata profits of the partnership, irrespective of the fact whether they are retained in the business or paid out. Again legal logic focuses its attention on the power of disposal.

At the outset it must be clearly recognized that the undistributed-profits tax as finally enacted by the 1936 revenue act—"a grating compromise that pleases neither believers nor disbelievers" [10]—could not be expected substantially to correct existing tax inequalities between corporate and noncorporate enterprise, for the simple reason that all existing taxes on corporate profits (i. e., the normal tax, the excess-profits tax, and the capital-stock tax) were retained in unaltered form.

The judicial attitude toward taxing "unrealized income" makes it possible for a steeply progressive personal income tax operating in conjunction with a moderately progressive or flat corporation income tax to favor one type of taxpayers at the expense of other taxpayers. The type favored is of course individual stockholders in corporations which do not fully and promptly distribute their earnings in the form of dividends. The undistributed-profits tax of 1936 was designed to diminish this favoritism by subjecting the undistributed profits of corporations to a special tax.

Further, it may be contended, corporate self-financing out of retained profits and depreciation charges dispenses with the necessity for resorting to the capital market. The range of decision is thus narrowed to the corporate managers themselves, who thus avoid outside check and approval (i. e., by the functionaries and institutions of investment) of their plans for expansion, possibly entailing waste of capital. Such short-circuiting of the instrumentalities of the capital market also precludes effective supervision of investment channels by the Government. It should be pointed out that the

[9] See the comprehensive review of relevant cases in Roswell Magill's study of Taxable Income (1936).
[10] See Willard L. Thorp and Edward B. George, "An Appraisal of the Undistributed Profits Tax," Dun's Review, September 1937.

undistributed-profits tax of 1936 made only a partial approach to the problem of corporate savings, since depreciation funds (which, of course, are very large) were completely unaffected by the new tax. One of the misfortunes of the undistributed-profits tax of 1936, it has been frequently suggested, was that it was enacted at a time when the market for new capital issues was not functioning satisfactorily.[11]

The accumulation of criticism [12] against the tax on undistributed profits lead Congress to all but repeal the tax, retaining in the 1938 Revenue Act a small stump of 2½ percent of the undistributed profits of corporations with net income in excess of $25,000. Besides thus exempting the smaller corporations (i. e., with net incomes of not more than $25,000) the 1938 act also expanded the scope of various credits allowed under the surtax, including the reintroduction of the net operating loss carry-over provision (in effect from 1919 through 1932) insofar as the surtax was concerned. A credit was also allowed for "amounts used or irrevocably set aside to pay or to retire indebtedness (existing on December 31, 1937) of any kind, if such amounts are reasonable with respect to the size and terms of such indebtedness." The corporation was also allowed to claim "a consent dividends credit equal to such portion of the total sum agreed to be included in the gross income of shareholders by their consents." [13] In the 1939 act (applicable to 1940) the surtax on undistributed profits was completely abandoned.

The data presently available are inadequate either to determine the degree to which the new tax, by forcing distributions of corporate profits into the hands of individuals, implemented the surtax on natural persons, or to indicate the efficacy of the reforming changes made by the 1938 act, particularly with reference to the exemption of smaller corporations (i. e., with net incomes under $25,000) and corporations desiring to retire existing indebtedness and with reference to the employment of the consent dividends device.[14] All that is possible at the present instance is to examine for 1936 and 1937 the effect of the surtax on the profits of corporations of varying sizes and industrial activities, and to determine insofar as possible, how the magnitude of the tax varied with the magnitude of dividends distributed.

The undistributed-profits tax applied to all corporate profits except interest derived from governmental securities. Dividends received from other corporations were included in net income to the full amount, while only 85 percent of intercorporate dividends were

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[11] See Gerhard Colm, The 1938 Revenue Act, Social Research.

[12] The House Ways and Means Committee of the 75th Cong., 3d sess., summarized the criticism of the surtax on undistributed profits as follows:

"(1) It discourages, in many cases, legitimate business expansion, and therefore has an adverse effect on employment.

"(2) It puts a penalty on corporations which find it necessary to use current earnings in the payment of debts.

"(3) It burdens the small and weak corporation more than the large and financially strong corporation.

"(4) It is unfair to corporations with impaired capital which under State law cannot legally declare dividends.

"(5) The relief provisions of existing law dealing with corporations having contracts not to pay dividends or contracts requiring the use of current earnings for the payment of debts are so restrictive as to provide relief only in rare cases.

"Your subcommittee has examined these complaints and believes there has been much exaggeration as to hardships in the great majority of cases. It is believed, however, that a substantial number of cases of hardship exist and that in such cases there is merit in the complaints. It appears, however, to design general relief provisions broad enough to take care of these meritorious cases without a very serious loss of revenue." Revision of Revenue Laws, 1938, p. 12..

[13] If the shareholder who makes the consent is a corporation, the amount specified in the consent shall be considered as part of its earnings or profits for the taxable year * * * sec. 28. Also see Regulations 101, arts. 26–27. Note that the 1938 revenue act was allowed to become law without the President's signature and that the President issued a statement criticizing the abandonment of the undistributed-profits tax principle.

[14] See sec. 27 of the 1938 act.

included in net income for the normal tax and the excess-profits tax. To this extent it is apparent that the surtax on undistributed profits acted somewhat as a deterrent to intercorporate affiliations. The undistributed-profits tax, however, contained no restrictions as to the taxable character of the recipient of dividends paid upon which the distributing corporation claimed credit. In other words it was irrelevant whether the stockholder was a natural person (who would pay normal and surtaxes upon his entire dividend income) or a tax-exempt corporation (which would pay no normal taxes whatever). To this extent the purpose of forcing corporate profits to be distributed into the hands of stockholders and there taxed under the individual income tax was partially defeated, especially in cases where the stockholder fell in the tax-exempt category. In the case of the corporate stockholder it should be noted that it would of course be subject to the surtax on undistributed profits (if not specifically exempt) upon the entire amount of its dividend income.[15]

Corporations were allowed to deduct from net income, so defined, the amounts of the excess-profits tax and the normal tax paid and to take credits for the total amount of taxable dividends distributed and all amounts required by contracts (executed prior to May 1, 1936, and expressly dealing with the payment of dividends) "to be paid within the taxable year in discharge of a debt, or to be irrevocably set aside within the taxable year for the discharge of a debt." [16] These deductions from and credits against net income resulted in "undistributed net income" which was subject to a special surtax ranging from 7 percent to 27 percent in accordance with the magnitude of such undistributed net income in relation to net income before the credits.

In the case of banking affiliates subject to regulation by the Board of Governors of the Federal Reserve System and in the case of national mortgage association created under title III of the National Housing Act, special credits were respectively available for the "amount of earnings or profits which * * * has been devoted by such affiliate during the taxable year to the acquisition of readily marketable assets other than bank stock" and "the amount of earnings or profits which * * * has been devoted by such association during the taxable year to the acquisition of such reserves as the Federal Housing Administrator may require." [17]

In order to claim a credit for dividends distributed it was necessary for the corporation to establish that the distribution was a taxable dividend. As to cash dividends no legal problem was presented since they were clearly taxable under the sixteenth amendment as construed by the Supreme Court. Difficulties, however, did exist with respect to stock dividends, stemming from the celebrated decision of the Supreme Court in *Eisner* v. *Macomber* [18] which held that a dividend in common stock issued to the holder of common stock was not income within the meaning of the Constitution. For some time it was felt, and the revenue acts and treasury regulations so indicated,

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[15] In Facing the Tax Problem it is suggested that the undistributed-profits tax may encourage holding companies. See p. 180.

[16] 1936 act, sec. 26 (c). In lieu of this provision, the 1938 act provided that a credit could be claimed for all "amounts used or irrevocably set aside to pay or to retire indebtedness (existing on Dec. 31, 1937, and evidenced by a bond, note, debenture, certificate of indebtedness, mortgage, debt of trust, or accepted bill of exchange) of any kind, if such amounts are reasonable with respect to the size and terms of such indebtedness," sec. 27 (a).

[17] See sec. 26 (d–e) of the 1936 act. The 1938 act completely exempted all rental housing corporations from the undistributed profits tax.

[18] 252 U. S. 189 (1920).

that all stock dividends were nontaxable. During 1936 and 1937, however, the Supreme Court in *Koshland* v. *Helvering* [19] held preferred stock distributed to the holders of common stock was taxable income, although both classes of stock were outstanding at the time of distribution, but not held in equal proportion, and in *Helvering* v. *Gowan* [20] held taxable common stock distributed to the holders of preferred stock. In Regulations 103, the Treasury has summarized the legal position of stock dividends as follows:

> The distinction between a stock dividend which does not, and one which does, constitute income to the shareholder within the meaning of the sixteenth amendment to the Constitution is the distinction between a stock dividend which works no change in the corporate entity, the same interest in the same corporation being represented after the distribution by more shares of precisely the same character, and a stock dividend where there either has been a change of corporate identity or a change in the nature of the shares issued as dividends whereby the proportional interest of the shareholder after the distribution is essentially different from his former interest. A stock dividend constitutes income if it gives the shareholder an interest different from that which his former stock holdings represented. A stock dividend does not constitute income if the new shares confer no different rights or interests than did the old—the new certificates plus the old representing the same proportionate interest in the net assets of the corporation as did the old.[21]

Very few corporations, however, appear, at least in 1936 and 1937, to have chosen stock dividends in preference to cash dividends as a method of distribution designed to satisfy the requirements for a credit under the surtax on undistributed profits. Taking all corporations with net income in 1936, the amount of cash dividends amounted to $7,179,200,000 whereas stock dividends amounted to $335,319,000 or approximately 4 percent of total dividends distributed. In 1937, cash dividends amounted to $7,308,774,000 while stock dividends amounted to $170,945,000 or 2.3 percent of total dividends distributed.

The stock dividends distributed in 1936–37 were apparently inadequate in most cases to satisfy the requirements of the credit under the surtax, at least insofar as indicated by available data on a sample number of corporations subject to the surtax. In 1936 only 13.4 percent of the stock dividends reported for this sample were claimed taxable by the taxpayer (before audit by the Treasury)—consisting largely of preferred stock distributed to the holders of common stock.[22] See table VII. In 1937 the percentage of taxable stock dividends out of total stock dividends rose to 37 percent while the total stock dividends, as already indicated in the previous paragraph, declined from 4 percent of total dividends distributed in 1936 to 2.3 percent in 1937. The aggregate result was a slight increase in the relative amount of taxable stock dividends out of total taxable distributions from 0.6 percent in 1936 to 0.9 percent in 1937.[23]

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[19] 298 U. S. 441 (1936).

[20] 302 U. S. 238 (1937).

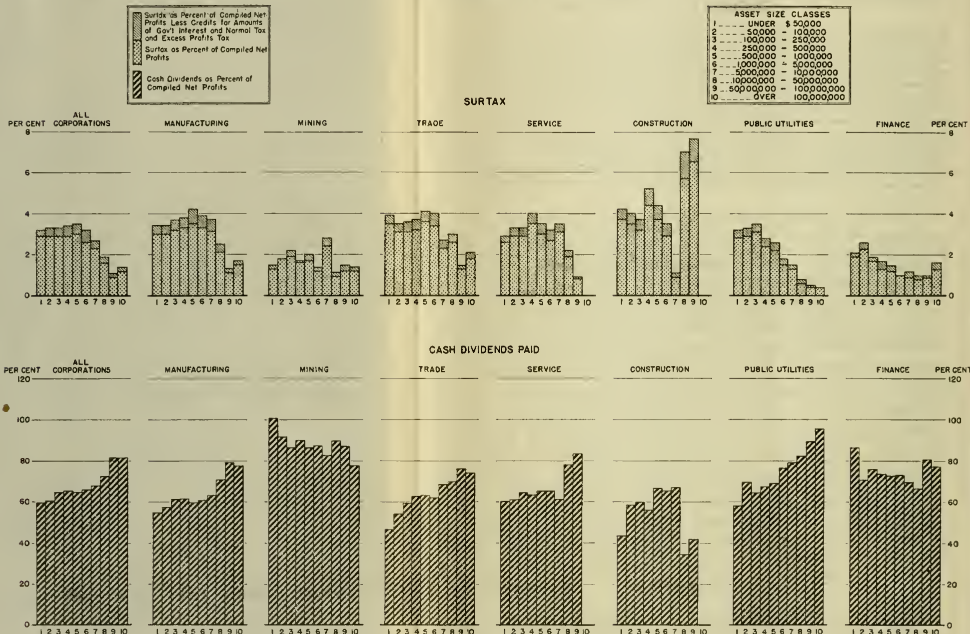
[21] Art. 115-7. The same language may be found in Regulations 94, issued under the revenue act of 1936.

[22] In 1936 the corporation income tax form provided no direction to the taxpayers as to whether particular types of noncash distributions were taxable—and hence available as a credit under the surtax—or nontaxable, while in 1937 the corporation income-tax form specifically indicated that such a distribution should not be claimed as a taxable distribution for purposes of the surtax.

[23] All the figures in this paragraph have been computed from a special tabulation (made available by the Division of Tax Research of the Treasury Department) of corporation income-tax returns filing the special schedule ("N" in 1936 and "M" in 1937, of form 1120) on the composition of dividend distribution upon which claims for the dividend credit under the surtax may be made.

CHART XXI

FEDERAL SURTAX ON UNDISTRIBUTED PROFITS OF CORPORATIONS BY SIZE CLASSES AND MAJOR INDUSTRIES, 1937 (RETURNS WITH NET INCOME ONLY)



Source. Computed from the Sourcebook of the Statistical Section of the Bureau of Internal Revenue.
Department of Commerce.

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Chart XXI—Continued

FEDERAL SURTAX ON UNDISTRIBUTED PROFITS OF CORPORATIONS BY SIZE CLASSES AND MANUFACTURING INDUSTRIES, 1937 (RETURNS WITH NET INCOME ONLY)

Source: Computed from the Sourcebook of the Statistical Section of the Bureau of Internal Revenue.

Department of Commerce.

TABLE VII.—*Types of dividends distributed by corporations subject to the surtax on undistributed profits, 1936–37*

[In percent]

	1936	1937
Cash	94.19	99.15
Assets	2.28	
Obligations of corporations	2.20	
Optional medium (cash)	.49	
Treasury stock	.10	.85
Preferred stock on common	.37	
Common stock on preferred	.10	
Preferred stock on preferred	.09	
Optional medium (common stock)	.20	
Total taxable distributions	100.00	100.00
Total taxable distributions	96.50	98.6
Nontaxable stock dividends	3.50	1.4
Total distributions	100.00	100.00

Source: Computed from a sample tabulation made available by the Treasury Department and published in less detailed form in the *Treasury Bulletin* for March, 1940.

A slight size variation was noticeable in 1936 with respect to cash distribution as compared with taxable stock dividends. Corporations with large net incomes (over $5,000,000) in 1936 distributed substantially all their dividends in the form of cash (97 percent), whereas corporations with relatively small incomes (under $50,000) preferred to distribute at least one-eighth of their dividend (12.8 percent) in forms other than in cash.[24]

Chart XXI shows the effect of the undistributed profits tax on corporations of varying size and industries in 1937. The surtax is measured as a percent of compiled net profits (a) before credits and (b) after credits for the amounts of the normal tax and the excess-profits tax and the interest derived from governmental securities, while the amount of cash dividends paid out has been shown as a percentage of the total profits.[25] Stock dividends have been disregarded, as generally constituting a nontaxable distribution upon which no credit may be claimed under the surtax. It is, unfortunately, not possible to show the effect of credits for written contracts restricting payment of dividends, since no data are available by size or by industries.

From these charts it is at once apparent that the undistributed-profits tax operated very unevenly in the different size and industrial classes. Taking all corporations as a group in 1937 the magnitude of the undistributed tax tends to vary inversely with corporate size—that is, the larger the corporation, the smaller the tax, and the smaller the corporation, the larger the tax. This pattern generally reflects the complementary pattern of the distribution of dividends, the magnitude of which varies directly with the corporate size—that is, the larger the corporation, the greater the share of distributed profits and, conversely, the smaller the corporation the greater the share of undistributed profits.

[24] Also see Thorp & George, *op. cit.*

[25] The amount of cash dividends paid out by corporations in a given size-industry class is not necessarily equivalent to the aggregate dividend credit claimed, since some corporations (especially in the larger size classes) may distribute more dividends than they had "adjusted net income."

When the size pattern, however, is broken down by industries it does not exhibit as clear a size variation, although there is a general tendency in most cases for the magnitude of the undistributed-profits tax to be higher on the smaller corporations than it is on the larger corporations. But this tendency is by no means invariable and is frequently obliterated by the tendency for the medium-sized corporations to report the highest undistributed-profits-tax ratio. This analysis will be presented for 1936 and 1937 in succession.

Among the major industries in 1936, the undistributed-profits tax appeared fairly heavy on the smaller corporations in construction, trade, and public utilities, while in manufacturing and service the higher effective rates of the surtax appear in the medium-sized classes. In mining and finance the undistributed-profits tax was relatively low, exhibiting a tendency to vary inversely with corporate size. Among the manufacturing industries, the highest rates appear frequently in the larger-size classes, particularly in beverages, leather, rubber, forest products, paper, and petroleum, while the smaller size classes report higher rates in food, tobacco, clothing, printing, chemicals, stone-clay-glass, metals, and motor vehicles.

The charts also show, in most cases, the essential insignificance of the credits for Government interest and for the amounts of the normal and excess-profits taxes that were allowable under the surtax on undistributed profits. Among the major industries this credit was of substantial importance only to finance where large holdings in governmental securities account for a major share of corporate profits. By exempting such profits from the surtax on undistributed profits, corporate investments in Government obligations were encouraged. The relative unimportance of these credits among the larger corporations in other major industries reflects the lightness of the surtax of those instances, resulting from the substantial cash distribution in corporate profits. Among the manufacturing industries the credit was likewise relatively insignificant except for a few of the larger-size classes—notably clothing, rubber, forest products, and petroleum.

In 1937, the latest year for which data are available, the undistributed-profits tax appears to have operated somewhat less unevenly than it did in 1936. For example, the highest effective rate in 1937 for any size-industrial class was 8.9 percent (beverages—seventh-size class) whereas in 1936 the effective rate ranged as high as 20.2 percent (paper—eighth-size class). Aside from the greater extremes that characterize the 1936 pattern, the 1937 size pattern appears to closely approximate that shown by 1936.

In trade, public utilities, and finance the pattern is one of general regressivity with the highest effective rates reported for the smaller corporations and the lowest rates reported for the larger corporations. In the case of manufacturing, mining, service, and construction, on the other hand, the highest effective rates are reported for the medium-sized corporations. The general pattern for manufacturing as a whole is naturally shown for most manufacturing industries. However, it should be noted that the pattern is progressive in the case of beverages and regressive in the case of goods, textiles, clothing, leather, and chemicals. These variations, of course, are largely accounted for by variations in the magnitude of dividends distributed.

When the figures on the undistributed-profits tax are broken down by more detailed industrial groups these observations are generally substantiated. See chart XX, which presents tax data for 86 industries. From this chart it is readily apparent that there were very substantial industrial differences in the operation of the undistributed-profits tax, the tax-profits ratio ranging from a high of 4.9 percent for agricultural machinery to 0.1 percent for telephone and telegraph. The ratio of the former was 49 times as high as the ratio of the latter.

The fact that certain exceptions (i. e., radios, shipbuilding, motion-picture producers) appear to the general observation can be explained in terms of the behavior of individual corporations within the industry. The main tendency is clearly shown. It is interesting to observe that the upper part of the chart—where the tax ratios are high and the distribution of profits is relatively low—are to be found the industries known to be largely small scale and highly competitive—while the lower part of the chart—where the tax rates are low and the distribution-of-dividends rates are high—are to be found industries characteristically organized on large scale and commonly cited as "monopolistic."

CHAPTER VI

FEDERAL CORPORATE INCOME TAXES PAID BY CORPORATIONS OF VARYING SIZE, 1931–37

This concluding section of the size chapters is designed to indicate the aggregate effect of Federal taxes upon corporate profits in various size and industrial classes, insofar as available data permit. Each type of Federal corporate income tax—the normal income tax, the capital stock, and excess-profits taxes, and the undistributed profits tax—has been separately examined in detail in this and the three foregoing chapters. To what extent have Federal corporate income taxes reduced corporate income that would otherwise be available for (*a*) distribution of dividends to stockholders (individual and corporate) and (*b*) reinvestment (and industrial replacement) by corporations of varying size and industrial classes?

Available data are unfortunately not sufficient to furnish a complete answer to this inquiry at the present time. But the deficiencies in the data are hardly of such a magnitude as to preclude any comparisons at all. One deficiency is the lack of data on the operation of the Federal capital-stock tax and the other is the impossibility of correlating the undistributed profits tax of the corporation and the income-tax payments of the individual stockholders on dividends. The omission of the capital-stock tax is not believed, in view of the analysis presented in section 1 of the preceding chapter, to introduce any substantial bias into the size and industrial comparisons. Data on the undistributed profits tax are presented always in conjunction with data on distributed dividends.

The statistical answer to the inquiry will be sought in terms of three different charts: (*a*) In actual dollars (for 4 size groups during a 7-year period (1931–37)), (*b*) in percents of corporate profits for 10 size groups crossed by 22 industrial groups in 1937, and (*c*) in percents of corporate profits for 91 minor industrial groups in 1937. For the purpose of the first chart it was found advisable to reclassify the corporations into 4 asset-size classes—small (with assets under $250,000), medium-sized (assets from $250,000 to $5,000,000), large (assets from 5 to 50 million dollars), and giants (assets $50,000,000) while the regular 10 asset-size classes are retained in the second comparison. The third comparison involves no size comparisons but presents greater industrial detail. "Corporate profits" are throughout defined in terms of "compiled net profits" (of Statistics of Income), including intercorporate dividends and interest received from tax-exempt securities, both of which are at the disposal of the receiving corporation. These charts cannot be used to show the relative "tax burden" [1] of corporations of different size classes without considering the taxable status of intercorporate dividends and interest from governmental securities that were examined at length in the preceding chapter.

[1] It may be questioned whether it is possible to speak of the "tax burden" of other than natural persons.

Chart XXII shows for the four size groups for each year (represented by a single bar), between 1931 and 1937, the magnitudes (in millions of dollars) of (*a*) Federal corporation income taxes (at top of the chart), (*b*) corporate profits after taxes that were distributed to stockholders as cash dividends (second section of the bar from the top), (*c*) income available for reinvestment (third section of the bar), and (*d*) funds accrued (income available) for industrial replacement (lowest section of the bar).

In all size classes the recovery in corporate profits has been substantial in magnitude. Each size class showed a steady gain in corporate profits (before and after taxes) year-by-year from 1932 and 1936. But only the giant corporations continued to increase the volume of their profits in 1937; the other size classes reported a smaller volume of profits in 1937 than in 1936. The rate of recovery has been lowest for the giant corporations, but likewise their profits declined less precipitously and consequently had less ground to regain.

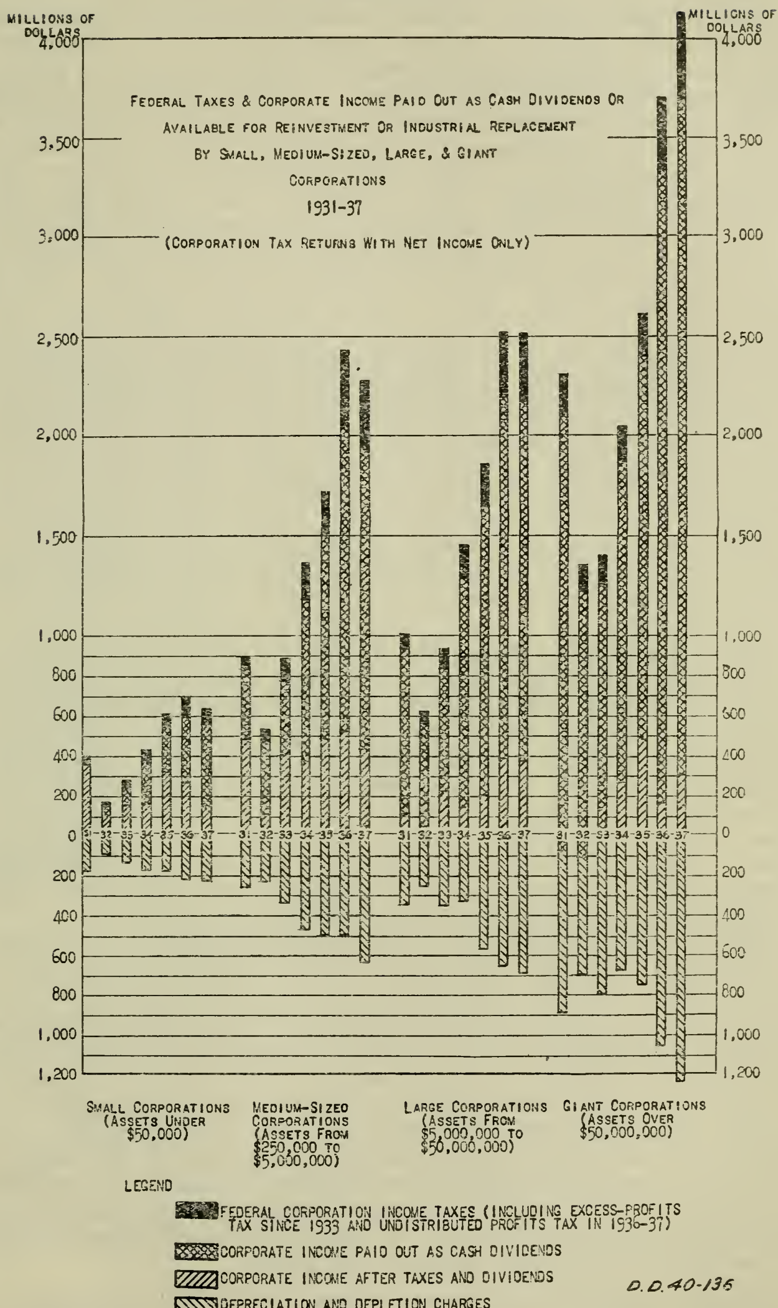
The substantial recovery in corporate profits has been offset by increasing Federal income taxes only to a minor extent (infra). The relative effect of such taxes upon corporate profits in the various size classes can be gaged from a comparison of the rates of increase of corporate profits before taxes with the rate of increase of profits after taxes. This comparison gives probably the clearest indication of the relative role in recent years of Federal corporate income taxes [2] in reducing corporate profits otherwise available for distribution of dividends.[3] Expressing the rate of increase from 1932 to 1937 of corporate profits before taxes as 100 in each size class, the rate of increase of profits after taxes (excluding the undistributed profits tax) was 100 for the small corporations, 99 for the giant corporations, 97 for the large corporations, and 96 for the medium-sized corporations. This comparison indicates that the curtailing effect of the Federal corporation income taxes upon corporate profits was somewhat greater in the medium-sized class of corporations than in the case of either the giant or the small corporations. A size comparison of the rate of increase of taxes between 1932 and 1937 likewise shows the highest increase occurring in the medium-size group. The explanation for this size differential is to be found in the one case (i. e., small corporations) in the graduated feature of the normal tax and in the other case (i. e., giant corporations) in the operation of the special credits for investment income.

This chart also shows the relative magnitude of corporate funds available for reinvestment and industrial replacement (i. e., corporate profits after all taxes and cash dividends paid out plus depreciation and depletion) in the various size classes. The rate of recovery of such corporate funds can be shown by a comparison of the same with the rate of recovery of corporate profits before taxes and dividends. Holding the latter constant at 100, the rate of recovery between 1932 and 1937 of corporate investment replacement funds was 68 for the small corporations, 73 for the medium-sized corporations, and 87 for the large and giant corporations.

[2] In this particular comparison, the undistributed profits tax has been omitted.

[3] The years 1931–33 are not entirely comparable with one another, nor with the succeeding period as a result of statutory changes with respect to the filing of consolidated income-tax returns.

CHART XXII



Source: Statistics of Income for respective years.
Department of Commerce.

These general size patterns have been broken down by 22 industries for 1937 in chart XXIII. In order to make comparisons easier, compiled net profits (including intercorporate dividends and interest from governmental securities) are expressed as 100, rather than in absolute dollars, and the three types of taxes (i. e., the normal tax, the excess-profits, and the undistributed-profits tax), cash dividends paid out, and residual profits (i. e., after taxes and dividends) are shown as percentages of corporate profits before Federal income taxes.[4] The normal tax is shown at the top of the chart. Next follows the excess-profits tax. Both of these taxes are collected by the Federal Government irrespective of corporate policies as to the distribution of cash dividends, the relative magnitude of which is shown next. The undistributed-profits tax, which is a function of the magnitude of dividends paid out, is shown below cash dividends. The residual area indicates the percentage of corporate profits remaining after all taxes and cash dividends—that is, income available for reinvestment or as liquid reserves. It was unfortunately not technically feasible to show on this diagram the relative magnitude of depreciation and depletion which are frequently the source of corporate expansion as well as replacement. The investment area was affected by the undistributed-profits tax in at least two ways—(*a*) by forcing distribution of dividends in order to avoid payment of the surtax and (*b*) by reducing income after taxes and dividends by the amount of the surtax legally due (i. e., from 7 to 27 percent of the residual, less credits for tax-exempt interest).

These charts clearly show that Federal corporate income taxes in the aggregate (i. e., the normal tax plus the excess-profits tax plus the undistributed-profits tax) reduced corporate profits otherwise disposable to the greatest extent in the medium-sized classes. This statement does not take into account the role of individual stockholders whose tax payments of course depend upon the distribution policy of the corporation. It is applicable to all major industries except finance where the curtailing effect of taxes was greatest in the smaller-size classes. Corporate profits were reduced to the least extent by Federal corporate income taxes in the largest-size classes, except trade, where the effect of taxes was least in the smaller-size classes.

The magnitude of corporate profits remaining after taxes and dividends varied inversely with corporate size—that is, the amount of profits retained for investment purposes or as liquid reserves was relatively greater in the smaller corporations than in the medium-sized and large corporations, and, conversely, the amount of retained profits was relatively smaller in the large corporations than in the small and medium-sized corporations. This observation does not apply to (*a*) mining [5] where the aggregate amount of cash dividends paid out exceeded total corporate profits in all size classes except the largest or (*b*) finance where retained profits were relatively largest in the medium-sized classes. The undistributed-profits tax was larger on the small and medium-sized corporations, as has already been shown, but did not markedly curtail such undistributed profits.

[4] The capital-stock tax has been already deducted as an expense item. See sec. 1 of this chapter.

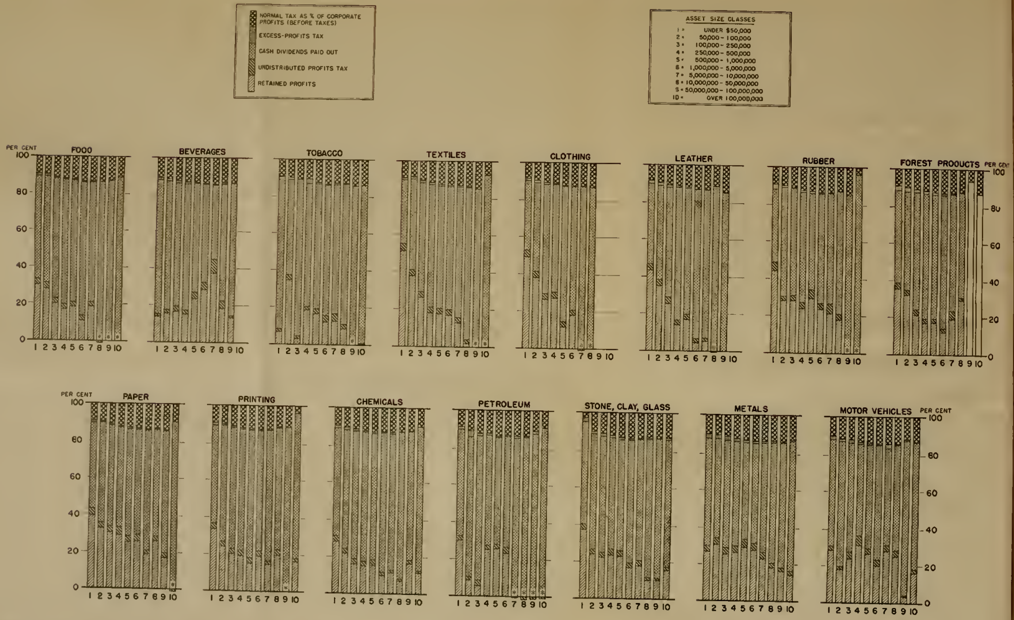
[5] The fact that mining corporations as a group reported surtaxes on undistributed profits, despite the fact that cash dividends exceeded profits in the aggregate, can be explained only by assuming considerable variation among individual corporations—one corporation, for reasons sufficient to itself, chose to pay out cash dividends equivalent to 150 percent of its profits, while another corporation, for equally self-sufficient reasons, chose to pay out cash dividends only to the extent of 60 percent of its profits. The sum of these would show a surtax and yet a dividend distribution of 105 percent.

Chart XXIII—Continued

FEDERAL CORPORATE INCOME TAXES DISTRIBUTION OF DIVIDENDS AND RETENTION OF PROFITS BY CORPORATIONS OF VARYING SIZE AND INDUSTRIES

(NET-INCOME TAX RETURNS ONLY)

1937



SOURCE: Computed from STATISTICS OF INCOME and Sourcebook of the Statistical Section of Bureau of Internal Revenue

* Cash Dividend Exceeded Profits after Taxes for the Class as a Whole

CHART XXIII

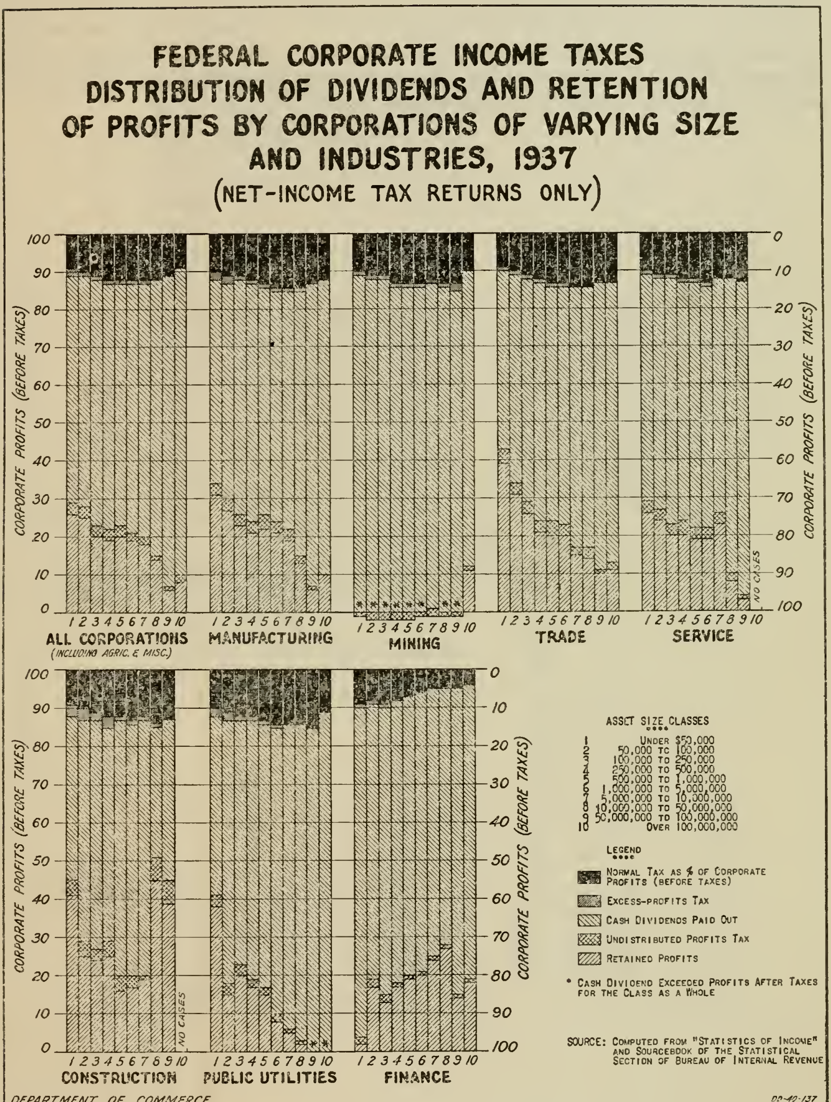
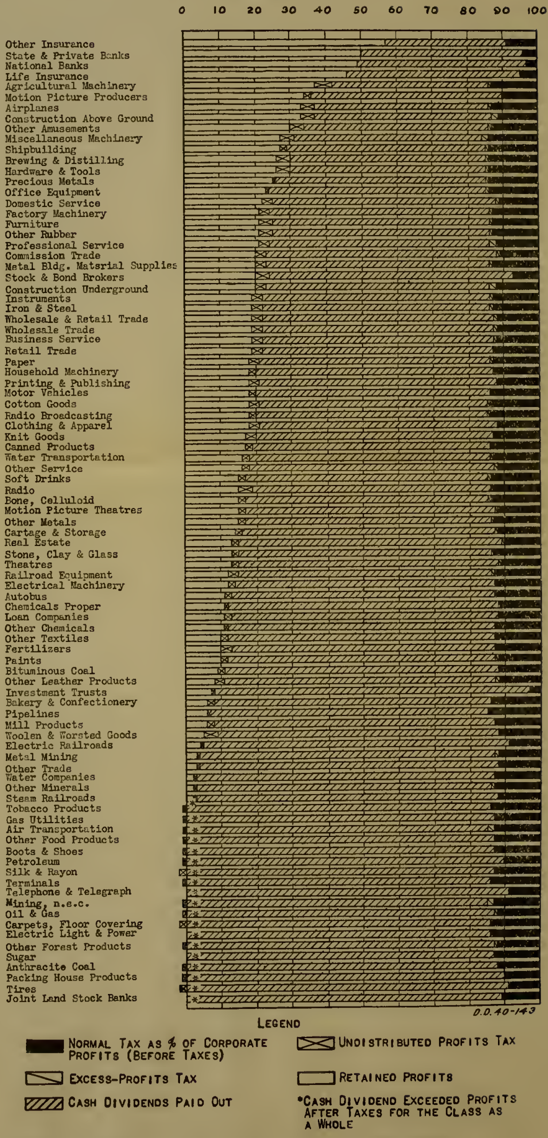

FEDERAL CORPORATE INCOME TAXES
DISTRIBUTION OF DIVIDENDS AND RETENTION
OF PROFITS BY CORPORATIONS OF VARYING SIZE
AND INDUSTRIES, 1937
(NET-INCOME TAX RETURNS ONLY)
CORPORATE PROFITS (BEFORE TAXES)
ALL CORPORATIONS
(INCLUDING AGRIC. & MISC.)
MANUFACTURING
MINING
TRADE
SERVICE
NO CASES
CONSTRUCTION
PUBLIC UTILITIES
FINANCE
ASSET SIZE CLASSES
1 UNDER $50,000
2 50,000 TO 100,000
3 100,000 TO 250,000
4 250,000 TO 500,000
5 500,000 TO 1,000,000
6 1,000,000 TO 5,000,000
7 5,000,000 TO 10,000,000
8 10,000,000 TO 50,000,000
9 50,000,000 TO 100,000,000
10 OVER 100,000,000
LEGEND
NORMAL TAX AS % OF CORPORATE PROFITS (BEFORE TAXES)
EXCESS-PROFITS TAX
CASH DIVIDENDS PAID OUT
UNDISTRIBUTED PROFITS TAX
RETAINED PROFITS
* CASH DIVIDEND EXCEEDED PROFITS AFTER TAXES FOR THE CLASS AS A WHOLE
SOURCE: COMPUTED FROM "STATISTICS OF INCOME" AND SOURCEBOOK OF THE STATISTICAL SECTION OF BUREAU OF INTERNAL REVENUE
DEPARTMENT OF COMMERCE
DD-40-137

Chart XXIV (the construction of which parallels chart XXIII) shows these same relationships for 91 minor industrial groups. The industries have been ranked by the magnitude of profits remaining after taxes and dividends. Such profits were very substantial for several kinds of financial corporations (e. g., insurance and banks) and very low or practically nonextant for various types of public utilities (e. g., gas, light and power, telephone and telegraph) and consumers' goods industries (e. g., sugar, silk and rayon, boots and shoes). The characteristics of any specific industry are apparent upon inspection and need not be elaborated further here.

CHART XXIV

FEDERAL CORPORATE INCOME TAXES, DISTRIBUTION OF DIVIDENDS AND RETENTION OF PROFITS BY CORPORATIONS IN 91 INDUSTRIES, 1937



Source: Computed from the Sourcebook of the Statistical Section of the Bureau of Internal Revenue. Department of Commerce.

262698—41—No. 9 (Face p. 86)

CHAPTER VII

FEDERAL TAXATION OF MONOPOLY PROFITS: A NEGATIVE RECORD

High corporate profits in relation to investment may result from (*a*) a condition of "imperfect competition" of a sort that may be loosely labeled "monopoly," (*b*) a return on investment commensurate with the degree of risk involved, or (*c*) a sudden increase in demand (e. g., during war) which cannot be met by existing capacity. If the accounting period is sufficiently long, the second type of high profits for a single year will be offset by losses in previous or succeeding years. The first type is appropriately termed monopoly profits, while the third type is the case of "war profits," which may be quite unrelated to "monopoly" as generally conceived.

The Federal tax laws have only once been directly concerned with the degree of profitability of corporations and that only as an emergency program to finance the wartime activities of Federal Government. This single incident was the excess-profits tax in effect between 1917–21, and the war-profits tax of 1918.[1]

With the expiration of the war excess-profits tax in 1921, the Federal tax laws reverted to their earlier emphasis upon the mere dollar magnitude of profits to the exclusion of any concern with the rate of profit of corporations. If corporations have a net income a Federal tax was imposed at a fixed rate irrespective of the relationship of such income to investment. The enactment of the excess-profits tax in 1933 changed this situation only in a minor respect. That tax was no attack via taxation upon the high profits of corporations, but did discriminate against corporations with fluctuating income.[2] Fluctuating income implies high and low points of profit. Whenever the high point was reached without accurate anticipation by the corporation (i. e., in its capital-stock declaration), it found itself subject to an excess-profits tax.

The definition of taxable net income for Federal tax purposes may indirectly involve some tax discrimination among corporations according to their rates of profits. For example, high profits are more likely to result in the case of operating companies than in the case of corporations deriving most of their income from investment sources (i. e., intercorporate dividends and Government interest), which are substantially exempt from Federal taxation in the hands of the recipient corporation. To this extent only can it be said that the present Federal corporate income taxes attack "high corporate profits."

The actual tax experience of corporations of varying profitability during a recent 4-year period (1934–37) is shown in chart XXV, which is based on profits and investment figures filed by 435 manufacturing

[1] See appendix A for a brief review of wartime taxation. The excess profits tax enacted by the Second Revenue Act of 1940 constitutes another potential exception to the statement in the text.

[2] Supra, pp. 69–70.

corporations with the Securities and Exchange Commission and on the tax data reported by the identical group to the Department of Commerce. These corporations have been grouped into 9 profit classes, based on the ratio of "net before interest" to "invested capital" (including long-term debt).[3] The Federal normal corporate-income and excess-profits taxes and the capital-stock tax are measured as a percent of "net." From this diagram it is readily apparent that, in each year between 1934 and 1937, the relative magnitude of such Federal taxes tended to vary somewhat with the rate of corporate profits. That is, the tax-profits ratio was higher on the more profitable corporations and lower on the less profitable corporations. This direct relationship between the relative magnitude of the tax and the profit rate, however, was not invariably in evidence, although these exceptions to the general pattern may be the consequence of extreme cases, nor was it very substantially in magnitude. Standing by itself, the capital stock tax was clearly larger on the less profitable corporations, as may be expected in view of the analysis presented in the preceding chapter.

These tendencies are substantially confirmed when the figures are broken down by size and industries for 1937. The size variations for 1937 are shown as the lower part of chart XXV, while the industrial variations in 1937 are shown in chart XXVI (based on 578 corporations). In most cases the tax-profits ratios were highest in the most profitable groups, while in other cases the reverse relationship was noticeable.

These data show a slight tendency for the Federal corporate income, excess-profits, and captal-stock taxes (in the aggregate) to vary with corporate profitability. It is difficult to reach very definite conclusions, however, as to whether and to what degree existing Federal income taxes curtail corporate profits differently in various profitability groups.

One of the justifications made of the undistributed-profits tax by its proponents was its effect in curbing "monopoly." As originally enacted in the 1936 Revenue Act, however, the undistributed-profits tax approached this problem only indirectly and without adequate differentiation between industries with fluctuating income and those with stable income.

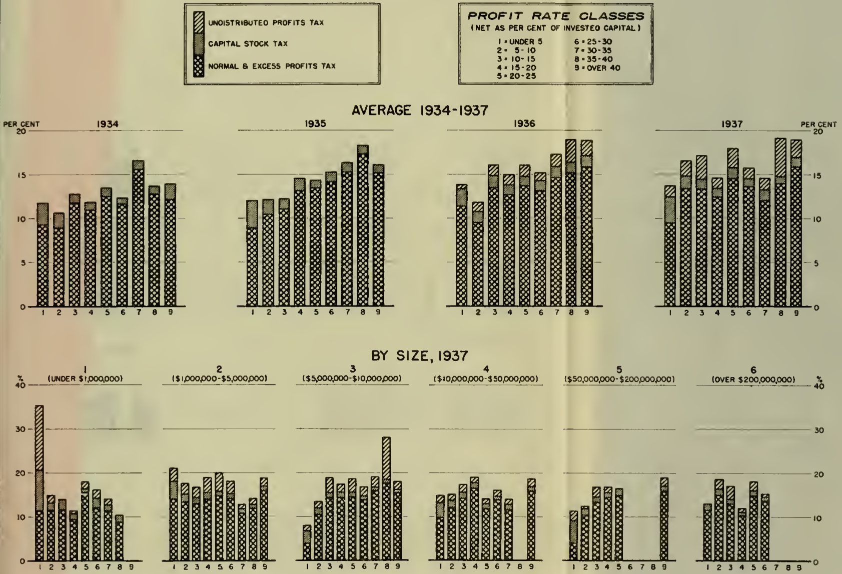
The approach of the undistributed-profits tax to the monopoly problem was indirect because it focused on that portion of corporate profits which remained undustributed and was not directly concerned with the relationship of profits to investment. Yet it is known that the amount of profits retained after the payment of dividends tends to vary directly with the rate of profit—that is, the more profitable corporations tend to distribute relatively less of their profits or dividends than do the less profitable corporations. Regular payment of dividends are, of course, essential to the maintenance of corporate reputations upon the capital market and hence are apt to vary relatively less over time than the volume of profits retained within the corporate system. By imposing a special tax upon the latter it is clear the most profitable corporations are apt to pay a larger tax of this sort than the less profitable corporations.

[3] For definition of terms, see Technical Appendix E. Note that the data used in this chapter have not been compiled on a basis entirely comparable to that of the data presented in the previous chapter.

Chart XXV

FEDERAL CORPORATE INCOME TAX PAYMENTS AS PER CENT OF NET PROFIT BEFORE INTEREST

435 MANUFACTURING CORPORATIONS BY PROFIT RATE CLASSES 1934-1937



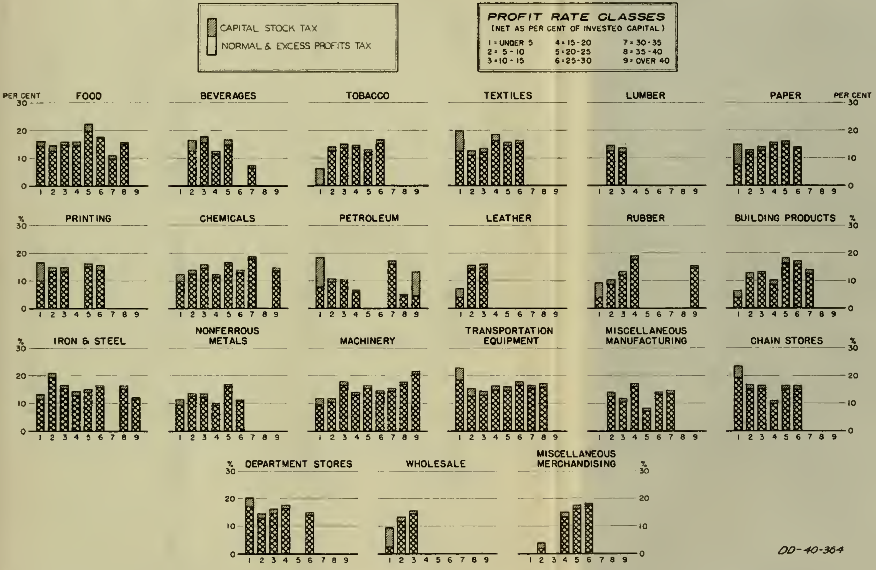
Source: Department of Commerce Survey of Business Taxation.

Chart XXVI

FEDERAL CORPORATE INCOME TAX PAYMENTS AS PER CENT OF NET PROFIT BEFORE INTEREST

578 LARGE MANUFACTURING AND TRADE CORPORATIONS BY PROFIT RATE CLASSES

1937

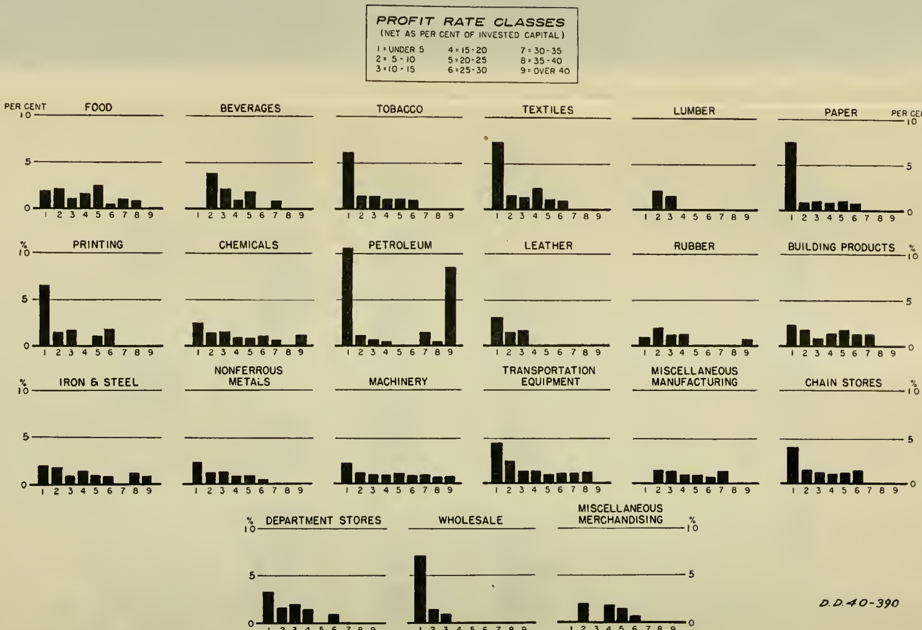


Source: Department of Commerce Survey of Business Taxation.

262698—41—No. 9 (Face p. 88) No. 2

Chart XXVII

FEDERAL UNDISTRIBUTED PROFITS TAX PAYMENTS AS PERCENT OF NET PROFIT BEFORE INTEREST, 578 LARGE MANUFACTURING AND TRADE CORPORATIONS BY PROFIT RATE CLASSES, 1937



Source: Department of Commerce Survey of Business Taxation.

If one of the purposes of such a tax is to check imperfect competition, however, it is necessary that the tax discriminate between the two types of profit situations outlined by extending the accounting period or by permitting the carry-over of losses. The surtax provisions of the 1936 Revenue Act permitted only the carry-over of excess credits for dividends paid out, while the revision of the tax by the 1938 Revenue Act expressly provided for a loss carry-over for the previous year.[4]

Chart XXV shows the relative magnitude of the undistributed-profits tax in 1936–37 for 435 manufacturing corporations classified by 9 profit classes and by 6 size classes (in the lower part of the diagram). Both in 1936 and in 1937 the relative magnitude of the undistributed-profits tax tended to vary with the profit rate—that is, the undistributed-profits tax ratio was relatively larger in the case of the more profitable corporations and relatively lower in the case of the less profitable group. When these figures are broken down by size classes it is discovered that this tendency is very marked in the middle size classes (assets from 1 to 50 million)—which probably include the so-called growing corporations—while no tendency (or in fact a contrary tendency in the case of the giants) is noticeable in the larger size classes. This size disparity can perhaps be explained by the easy access of the larger corporation to the capital market. The latter group, to this extent, forms an exception to the general observation on the direct relationship between the proportion of profits retained within the corporation and the rate of profit. Insofar as "monopoly" or "imperfect competition" can be associated with large corporations, it should be apparent that the undistributed-profits tax contributes little to the solution of the monopoly problem, since the ready access of such corporations to the capital market obviates reliance on retained profits as a technique of growth. In the case of the growing or middle-sized corporations which may not possess easy access to the capital market and therefore distribute less profits, it is not unlikely that an undistributed-profits tax may operate to check "monopolistic tendencies." In a word, an undistributed-profits tax may not curb existing monopolies but may constitute a check to the growth of new monopolies.

Chart XXVII shows the magnitude of the undistributed-profits tax in 1937 for 578 corporations, classified by 9 profit classes and 21 industries. The direct relationship between the magnitude of the tax and the rate of profit is readily apparent in beverages, tobacco, textiles, rubber, building products, iron and steel, machinery, and chain stores. In chemicals, transportation equipment, and department stores a reverse tendency must be noted while in the remaining industries no tendency is observable.

The four Federal taxes based on or related to corporate profits in the aggregate tend to vary roughly with the rate of corporate profits in relation to investment—that is, the tax-profits ratio tends to be higher on the more profitable corporations than on the less profitable. Yet it should be obvious that the tax variation is neither large nor universally in evidence, while the variation in profits is very considerable. Out of the 591 corporations in the 1937 tax sample, more than one-third of the number of corporations, reporting approximately half of the income of

[4] See Internal Revenue Code, sec. 26 (c).

the group, reported profits of more than 15 percent on investment. (See table VIII.) It is obvious that the Federal taxes affect "monopoly" profits only to a very minor extent.

TABLE VIII.—*Number of corporations and amount of net before interest of 591 manufacturing and trade corporations in 1937 tax sample, by profit rate classes*

Profit rate classes	Number of corporations			Net before interest		
	Actual number	Percent	Cumulative percent	Actual amount (million)	Percent	Cumulative (percent)
Deficit	13	2.2	99.9	(1)		
Under 5	62	10.5	97.7	43	1.8	100.0
5 to 10	167	28.2	87.2	718	30.0	98.2
10 to 15	128	21.7	59.0	549	22.9	68.2
15 to 20	80	13.5	37.3	475	19.9	45.3
20 to 25	59	10.0	23.8	325	13.6	25.4
25 to 30	39	6.6	13.8	182	7.6	11.8
30 to 35	25	4.2	7.2	79	3.3	4.2
35 to 40	12	2.0	3.0	11	.4	.9
Over 40	6	1.0	1.0	11	.5	.5
Total	591	100.0		2,392		

[1] Denotes red figure.

NOTE.—Profit rate equals net before interest as percent of inverted capital (including long-term debt).

CHAPTER VIII

EQUITY VERSUS CREDITOR CAPITAL IN FEDERAL CORPORATE INCOME TAXATION

Corporate activities may be financed by stockholders or by bondholders, or by both, or, after the corporation has been operating for a time, by undistributed profits and depreciation.[1] The contribution of the stockholders is conventionally termed "equity" capital—other terms are "risk" or "venture" capital—while that of the bondholders is called debt or "creditor" capital. These different modes of corporate financing have particular advantages over one another. If any general statement can be made, it can probably be said that financing by "risk" capital is probably preferable to creditor financing. It is at any rate clear that the converse proposition can be sustained only with great difficulty and subject to several limitations.[2]

The Federal tax laws, however, at present discriminate in favor of creditor financing by exempting from the corporation's tax base all payments of interest to bondholders, while of course no deduction is allowed for dividends paid out to stockholders (except in the case of the surtax on undistributed profits). Such interest is of course taxable in the hands of the recipient (i. e., the bondholders), but so are dividends received by natural persons. Insofar as corporate capital—whether equity or debt—is contributed by other corporations, the tax discrimination is not so marked since (a) in the case of equity capital the earning corporation pays the tax while the dividend-receiving corporation is substantially exempt (85 percent) from Federal tax upon such dividends and (b) in the case of creditor capital the earning corporation is free of taxation upon all distributions (as interest) while the interest-receiving corporation is presumably taxed thereon. From the point of view of the paying corporation per se, separate and apart from its owners and creditors, there is a substantial tax discrimination, irrespective of the corporate character of the contributors of capital. In the one case a distribution in the form of interest is tax-exempt while in the other a distribution in the form of dividends is taxable.[3]

The present statutory deduction for interest is fairly unlimited in scope—all interest may be charged as expense except that paid on indebtedness incurred to acquire tax-exempt securities. This was not the case prior to 1918, when the amount of interest deductible under the Federal corporate-income tax was limited to that paid on indebtedness which bore a specified relationship to equity capital. As a matter of fact, the question whether any deduction at all should be allowed

[1] The relation of Federal taxation to undistributed profits and depreciation has been examined in preceding chapters, especially at pp. 17–18, 30–31, 70–79.
[2] See Jerome Frank, "Too Much Interest in Interest."
[3] The varying importance of the interest deduction in different industries (particularly public utilities, service, and finance) has already been set forth, supra, pp. 30–31, 70–79.

for interest paid on bonds was quite warmly debated at the time of the enactment of the corporate excise tax in 1909. As the Blakeys report in their tax history—

> Most of the Members were at first opposed to such deduction because they thought it would encourage the substitution of bonds for stocks so as to avoid the tax. Some questioned the legality of taxing earnings set aside for interest payment; others argued that a tax upon such funds was really a tax upon stockholders, inasmuch as their dividends would be reduced by the amount deducted from earnings for this purpose. Root insisted that at least part of the interest should be taxed. One Member cited a Supreme Court decision in which it was held that net earnings included interest upon bonded indebtedness. The final decision, a victory for Root, was to permit corporations to deduct interest on an amount of bonds not in excess of paid-up capital stock.[4]

The income-tax law of 1913 amplified the scope of the deduction by providing that the indebtedness upon which the claimed interest was paid could equal (but not exceed) "one-half of the sum of its interest-bearing indebtedness and its paid-up capital stock outstanding at the close of the year." [5] This limitation was further relaxed by the Revenue Act of 1916 which provided that there may be deducted interest wherever the indebtedness on which such interest was paid equaled or was less than "the sum of (a) the entire amount of the paid-up capital stock * * * and (b) one-half of its interest-bearing indebtedness then outstanding." [6] A proviso prohibited the inclusion in the interest deduction of taxes paid on tax-free guaranty bonds. Since 1918, when the revenue act removed all restrictions upon the deductibility of interest, corporations can deduct "all interest paid or accrued within the taxable year on indebtedness * * *." [7] The 1932 act excluded interest paid on debt incurred to purchase annuities, which provision was subsequently repealed by the 1934 act.

The actual tax experience of 435 manufacturing corporations of varying equity composition of capital is given for a recent 4-year period (1934–37) in chart XXVIII. The corporations have been grouped into seven equity classes based on the ratio of equity capital (i. e., tangible net worth) to creditor capital.[8] Chart XXIX presents for 1937 similar data for 609 corporations arranged by 21 industries. The relative magnitude of the Federal corporate income taxes (measured as percents of "net before interest") shows a tendency to vary directly with the proportion of equity capital, although this variation follows by no means a step-by-step pattern. The tax ratios in the low equity classes are invariably lower than the tax ratios in the higher equity classes, but the former does not invariably furnish the lowest tax ratios (except in the smallest size classes). The tax differential arising from the exemption of interest paid is important in offsetting corporations with proportionably small equity capital from those having relatively larger equity capital. But as the proportion of creditor capital diminishes and the equity ratio arises correspondingly the tax-ratio differentials substantially disappear. Corporations having substantial equity capital do not report lower tax ratios than corporations the capital of which is almost exclusively composed of equity.

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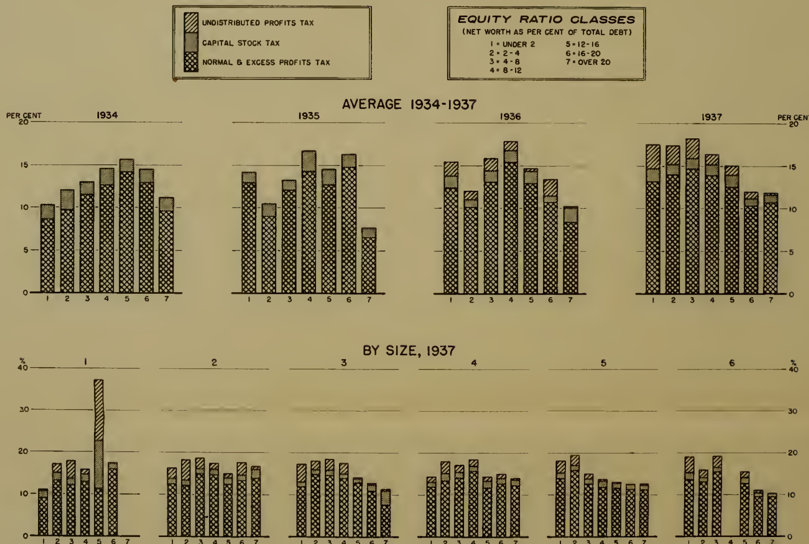
[4] R. G. Blakey and G. C. Blakey, The Federal Income Tax (1940), pp. 46–47.
[5] Sec. II (g) (b).
[6] Sec. 12 (a) (3d).
[7] Sec. 214 (a) (2).
[8] For definitions, see Technical Appendix E. It is unfortunate that these ax data do not include public utilities, where creditor financing is very predominant.

CHART XXVIII

FEDERAL CORPORATE INCOME TAX PAYMENTS AS PER CENT OF NET PROFIT BEFORE INTEREST
435 MANUFACTURING CORPORATIONS BY EQUITY RATIO CLASSES
1934-1937



Source: Department of Commerce Survey of Business Taxation.

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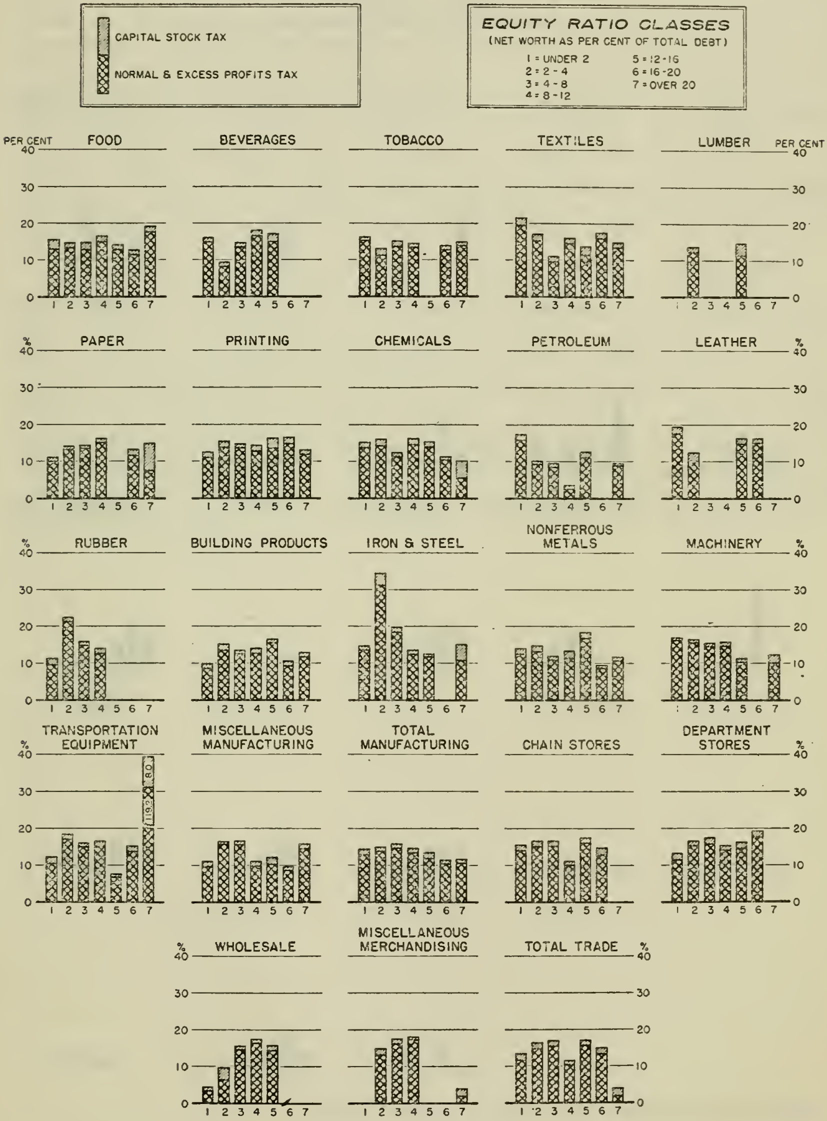
CHART XXIX

FEDERAL CORPORATE INCOME TAX PAYMENTS AS PER CENT OF NET PROFIT BEFORE INTEREST

609 LARGE MANUFACTURING AND TRADE CORPORATIONS BY EQUITY RATIO CLASSES

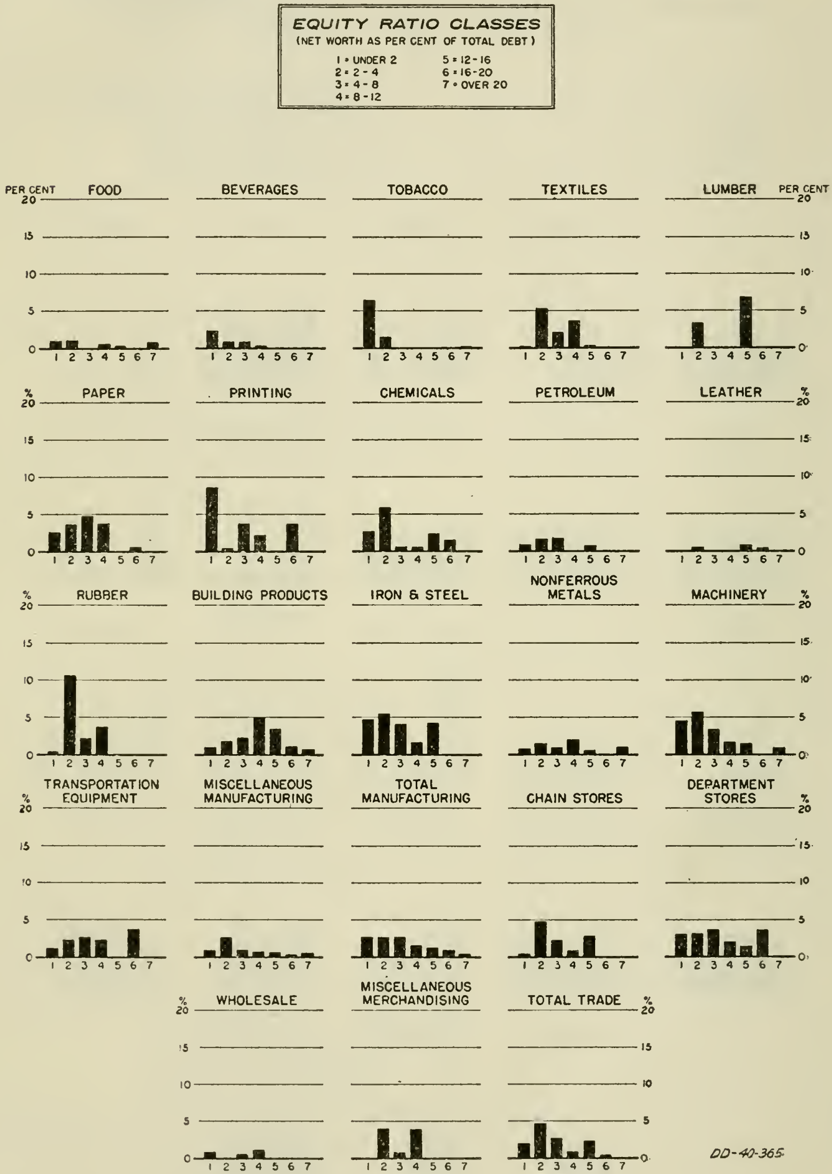
1937



Source: Department of Commerce Survey of Business Taxation.

CHART XXX

FEDERAL UNDISTRIBUTED PROFITS TAX PAYMENTS AS PERCENT OF NET PROFIT BEFORE INTEREST, 609 LARGE MANUFACTURING AND TRADE CORPORATIONS BY EQUITY RATIO CLASSES, 1937



Source: Department of Commerce Survey of Business Taxation.

One of the common criticisms of the undistributed-profits tax was that it fell with particular weight on corporations with considerable debt. Chart XXVIII, which presents 1936–37 data for 435 manufacturing corporations, seems to substantiate this criticism, insofar as manufacturing and trade corporations are concerned. In 1937 the magnitude of the undistributed profits tax (measured as percents of "net before interest") paid by manufacturing corporations varied inversely (step by step) with the extent of equity capital—that is, the highest undistributed-profits tax ratios appeared for those corporations with the lowest equity ratios and, conversely, the lowest tax ratios appeared for those corporations with the highest equity ratios. When these general figures for 1937 are broken down by size a similar pattern emerges, except in the smallest size classes. This observation is largely confirmed by an industrial comparison. (See chart XXX). But again there are notable exceptions (building products, paper, transportation equipment) to the generalization that the undistributed-profits tax was particularly heavy on "debt ridden" corporations.

In 1937 the normal tax, excess-profits tax, and capital-stock tax in the aggregate were found to be typically lighter on those corporations the capital structure of which contained a substantial amount of debt, while the undistributed profits tended to be heavier on the same group of corporations. In the one case a specific part of the Federal corporate-income tax system tended to encourage creditor financing, while another specific component of the tax system tended to counteract the former tendency. The net result in the various manufacturing industries was a general tendency for the tax system to encourage creditor financing.

CHAPTER IX

VARIABLE—COST TAXES

An increasing share of the revenue of both the Federal and State Governments is derived from taxes which vary in magnitude directly with the volume of industrial activity and, consequently, add to the "variable costs" of business enterprise. The most important types of "variable cost" taxes are (a) the pay-roll tax (imposed by the Federal Government and by 51 other jurisdictions), (b) Federal excise taxes (including taxes on liquor, tobacco, and various manufactured products), and (c) State sales and gross-receipt taxes. The actual economic effect of such taxes in the long run is very difficult to determine with any degree of precision, since so many factors are involved—the price level, the competitive situation, labor-union strength, cost of raw materials, and the volume and direction of governmental expenditures financed out of such taxes.

Yet some data are available for an examination of the extent to which such taxes contribute to the "costs" of various types of business enterprise. That is the primary question which this chapter purports to throw some factual light upon. How such costs are ultimately borne is a question which cannot be fully answered in this connection. See Temporary National Economic Committee Monograph No. 3, Who Pays the Taxes? by Gerhard Colm and Helen Tarasov.

PAY-ROLL TAXES

For the purpose of financing the recently enacted social security program, the Federal Government has imposed (a) starting with January 1, 1936, a special unemployment security tax at the rates of 1 percent in 1936, 2 percent in 1937, and 3 percent in 1938, upon the pay rolls of enterprises employing eight or more persons in all industries except those specifically exempted [1]—and (b) starting with 1937, another special tax (old age) at 1 percent of the pay rolls of all enterprises, irrespective of the number of employees, not specifically exempt. The first tax applies to total pay rolls without deductions while the second tax applies only to the first $3,000 and excludes the pay rolls of individuals over 65. Under the unemployment security tax each employer was permitted to credit against the Federal tax up to 90 percent the amount paid under an approved State unemployment compensation plan. The purpose of this tax-credit device was of course to persuade the States to enact pay-roll taxes for employment purposes and was as such shortly achieved.[2]

The impact of the pay-roll taxes upon business costs has been examined for 23,000 small and medium-sized manufacturing, trade,

[1] The exempt classes initially included agriculture, domestic service, shipping, Government, and nonprofit corporations.

[2] By June 30, 1936, 12 States had acted; by January 1, 1937, 23 additional States had acted; and by June 1937, all States imposed a pay-roll tax for unemployment.

and service concerns in 1938 and for 700 large manufacturing and trade corporations in 1937. In the large sample the pay-roll tax is shown for different size classes (based on sales) as percents of sales. In the smaller sample of large corporations the pay-roll tax is shown as percents of "gross margin" and the corporations have been grouped, in addition to size (based on assets) and industries, by (a) magnitude of labor costs and (b) profit rate.[3]

Chart XXXI shows the pay-roll tax payments as percents of sales for the large sample of 23,000 concerns, classified into 4 size classes and 12 manufacturing industries, 11 retail trade groups and 5 wholesale trade groups. The ratio of pay-roll taxes to sales tends to vary directly with size in 8 out of 36 manufacturing industries—baking, dairies, milling, nonalcoholic beverages, weaving, leather, engines, and miscellaneous manufacturing—in substantially all the retail groups, while substantially no size variations are apparent in wholesale trade. Of the remaining 28 manufacturing industries, 8—meat, distilleries, paper, printing, newspapers, industrial chemicals, and stone, iron and steel—show an inverse size relationship, that is, the pay-roll tax ratio is lower in the larger size classes and lighter in the smaller size classes. In 20 industries little or no size pattern is visible.

Chart XXXII shows the pay-toll tax as percent of "gross margin" for 700 large manufacturing trade corporations in 1937, classified into 6 size classes (based on assets) and 21 industries. The pay-roll tax ratio varies directly with corporate size in only two manufacturing industries—food and textiles—while no size patterns are apparent in trade. An inverse relationship between the pay-roll tax ratio and corporate size is, per contra, shown for beverages, building materials, nonferrous metals, machine and transportation equipment. In the remaining industries no size patterns are visible.

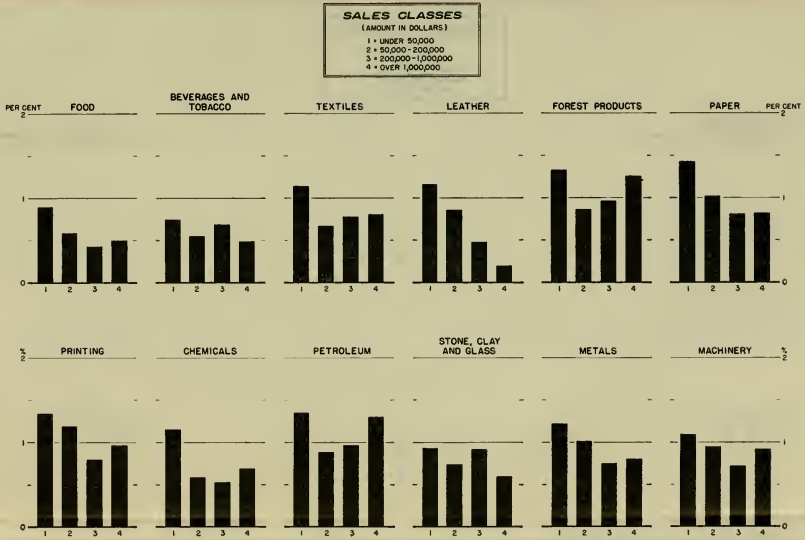
Whatever variation may be found in certain industries between the relative magnitude of pay-roll taxes and the size of business enterprise is a reflection of at least three factors—(*a*) the inapplicability of the employment tax to enterprises employing less than 8 persons, (*b*) the exemption of entrepreneurial labor from both pay-roll taxes, and (*c*) the exclusion from the tax base under the old-age tax of all wages above $3,000. The first factor is clearly of importance to small enterprise which, if sufficiently small, is wholly exempt from taxation. The second factor is probably more important to small enterprise than to middle-sized or large enterprise, since the labor contribution of the entrepreneur rapidly diminishes with the size of enterprise. The third factor is presumably of greater importance to middle-sized and large enterprise, since small enterprise may not be apt to employ many persons at wages-salaries exceeding $3,000. Yet the size patterns are not very pronounced except in a few industries and in these industries the variations of the pay-roll tax ratio may be due to other factors, the presence of which merely coincide with size in the particular instance.

One such factor is the relative importance of labor and capital to various types of enterprises and is probably the primary factor in producing variations of the pay-roll tax in different industries and enterprises. In order to isolate this factor clearly each corporation of the small sample was classified into one of six "labor cost" groups,

[3] For definitions and methodology, see appendix E.

FEDERAL-STATE PAY-ROLL TAXES AS PERCENT OF SALES BY SIZE CLASSES (BASED ON SALES) AND INDUSTRIES, 1938

PART I - 5,328 MANUFACTURING CONCERNS



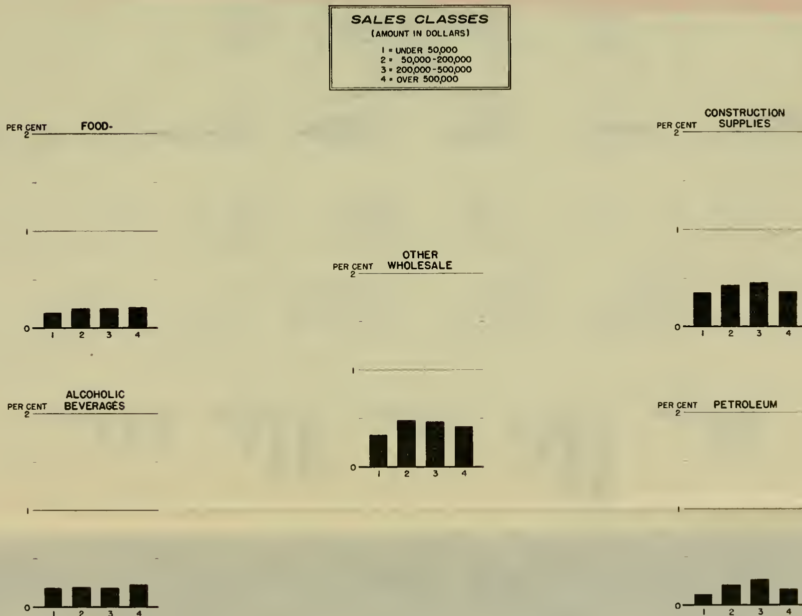
SOURCE: Tax Survey work sheets of the Research and Statistics Division of Dun and Bradstreet, Inc.

Department of Commerce.

Chart XXXI—Continued

FEDERAL-STATE PAY-ROLL TAXES AS PERCENT OF SALES BY SIZE CLASSES (BASED ON SALES) AND INDUSTRIES, 1938

PART II - 1,912 WHOLESALE CONCERNS



SOURCE: Tax Survey work sheets of the Research and Statistics Division of Dun and Bradstreet, Inc

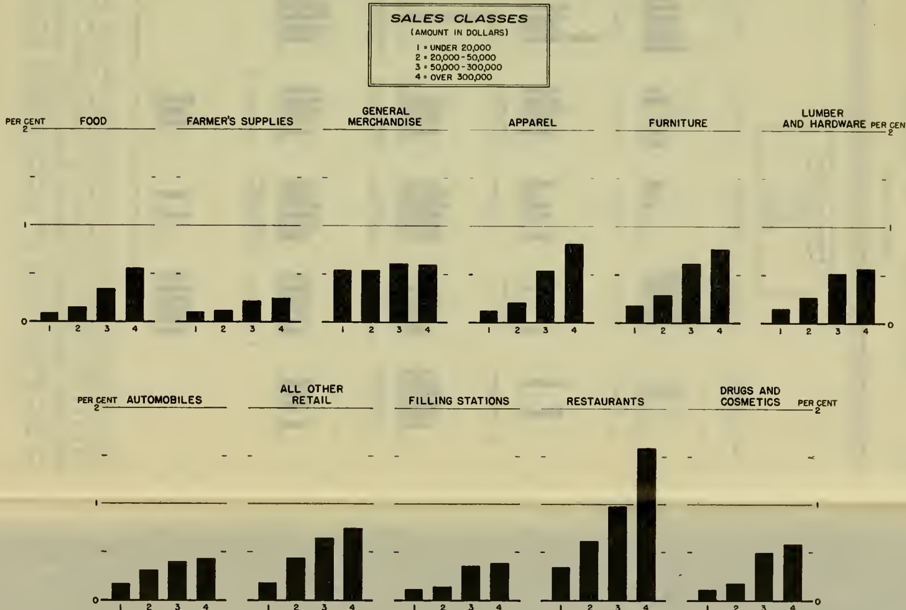
Department of Commerce.

262698—41—No. 9 (Face p. 98) No. 2

CHART XXXI—Continued

FEDERAL-STATE PAY-ROLL TAXES AS PERCENT OF SALES BY SIZE CLASSES (BASED ON SALES) AND INDUSTRIES, 1938

PART III - 15,968 RETAIL CONCERNS

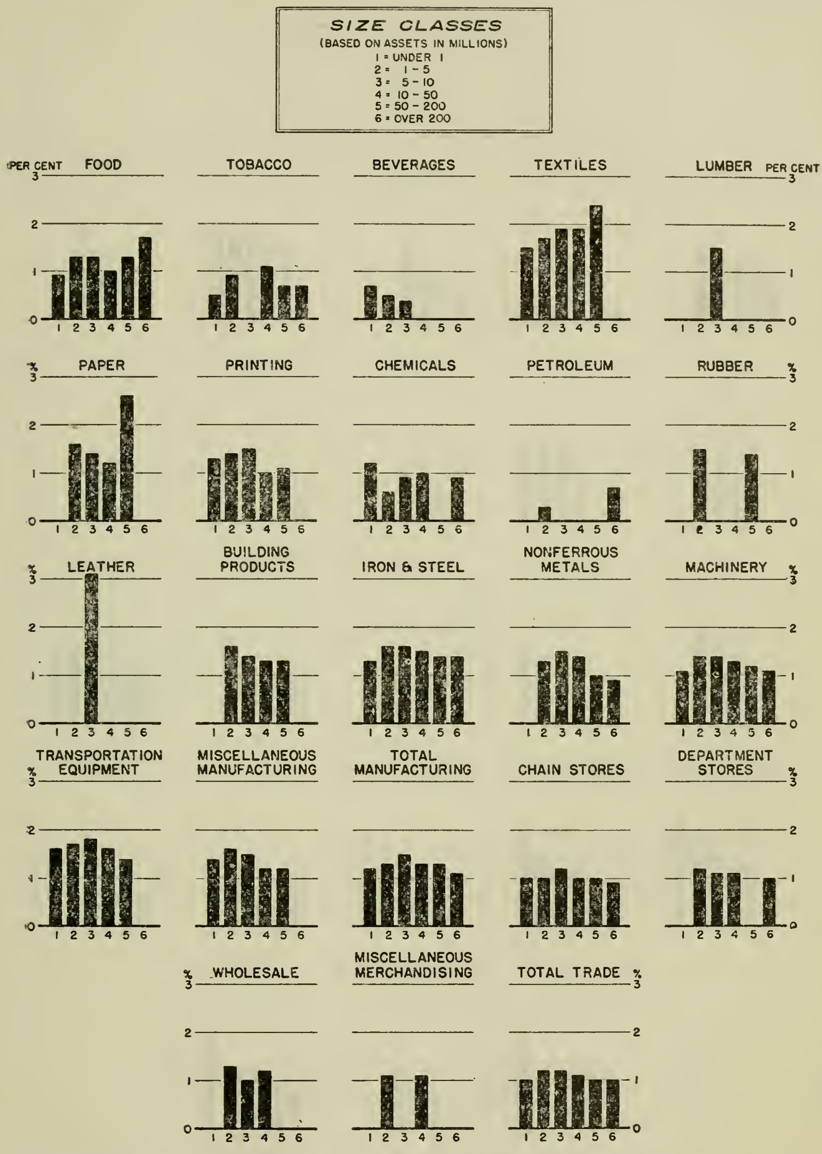


SOURCE: Tax Survey work sheets of the Research and Statistics Division of Dun and Bradstreet, Inc.

Department of Commerce.

Chart XXXII

FEDERAL-STATE PAY-ROLL TAX PAYMENTS AS PERCENT OF GROSS MARGIN, 697 LARGE MANUFACTURING AND TRADE CORPORATIONS CLASSIFIED BY ASSETS IN MILLIONS, 1937

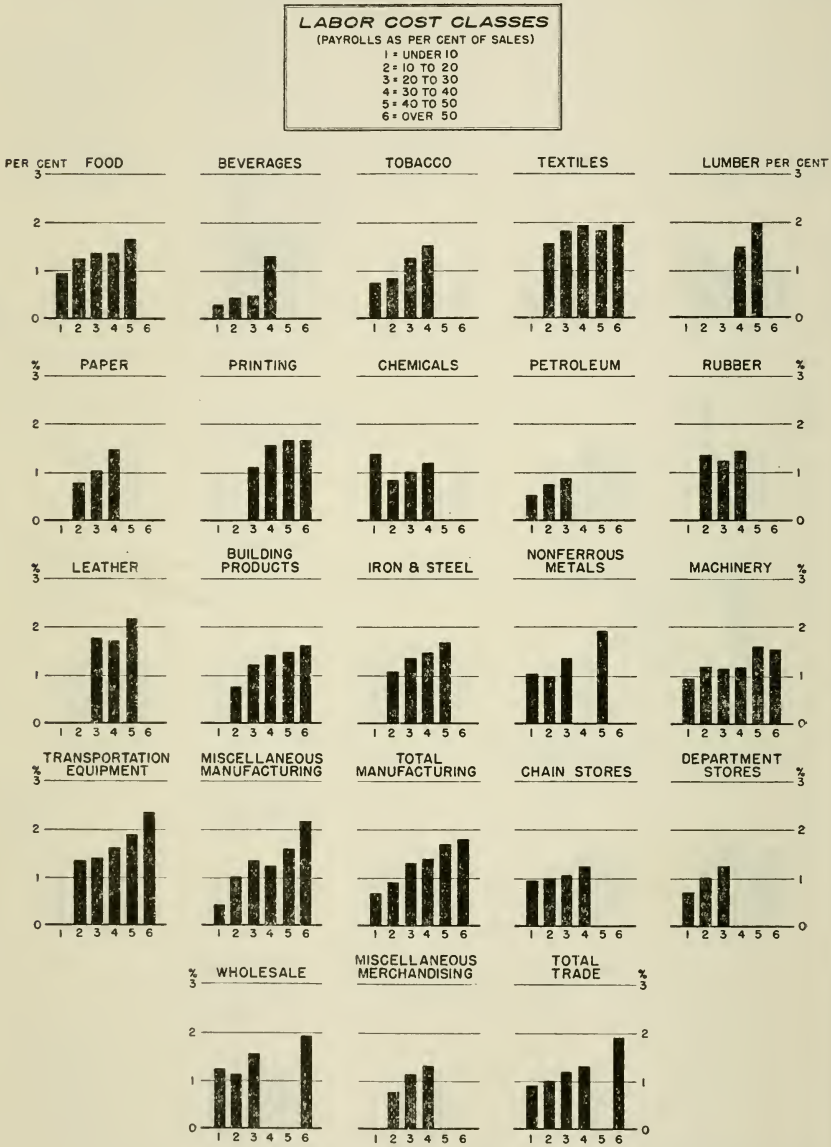


Source: Department of Commerce Survey of Business Taxation.

ranging from cases where labor costs were low (i. e., less than 10 percent of sales) to cases where labor costs were relatively high (i. e., more than 50 percent of sales). The data are shown in chart XXXIII for 21 industries. The pay-roll tax ratio to gross margin varies quite sharply with the degree of labor costs. In manufacturing the variation in 1937 ranged from 0.67 to 1.78 percent, while in trade the

Chart XXXIII

FEDERAL-STATE PAY-ROLL TAX PAYMENTS AS PERCENT OF GROSS MARGIN, 697 LARGE MANUFACTURING AND TRADE CORPORATIONS BY LABOR COST CLASSES, 1937

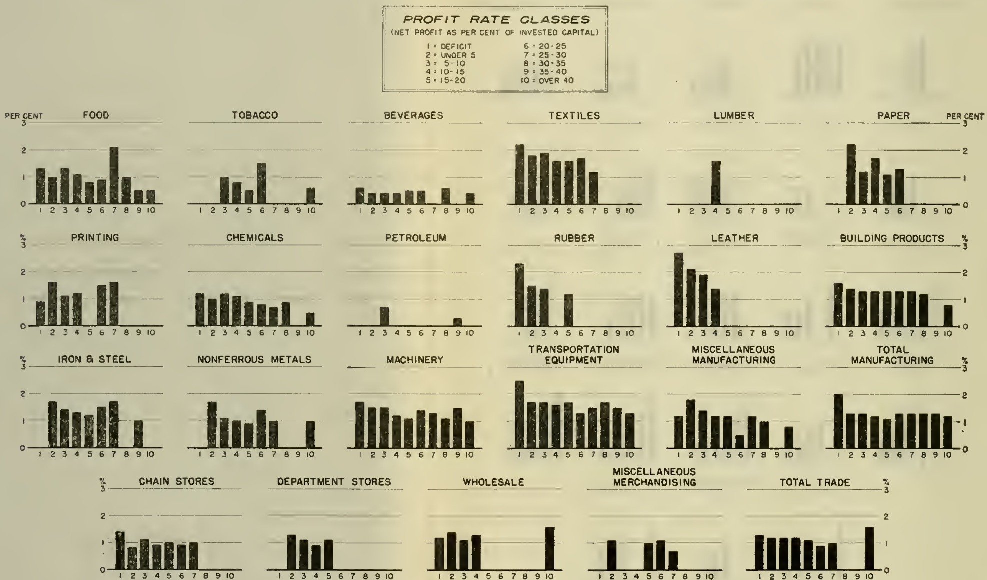


Source: Department of Commerce Survey of Business Taxation.

variation was from 0.91 to 1.94 percent. In other words, the pay-roll tax falls heavier on those firms where pay rolls are a very major cost item, while it is lighter on firms that are highly mechanized (where pay rolls are low with respect to capital costs). When these figures are further broken down by size classes, the variations of the pay-roll tax with the degree of labor intensity tend to be greater in the smaller size groups than in the larger size groups.

CHART XXXIV

FEDERAL-STATE PAY-ROLL TAX PAYMENTS AS PERCENT OF GROSS MARGIN, 572 LARGE MANUFACTURING AND TRADE CORPORATIONS BY PROFIT RATE CLASSES, 1937



Source: Department of Commerce Survey of Business Taxation.

The pay-roll tax has nominally no relationship to the profitability of corporations. Its liability results wherever persons are employed in a nonexempt industry and varies with the magnitude of the pay roll. Profitable and unprofitable corporations must alike pay this tax, since it is based on a cost factor and not on the margin of profits. Yet it by no means follows that the pay-roll tax impinges equally upon corporations of varying profitability and it may fall more heavily on the less profitable group. In order to examine this aspect of the ratio of the pay-roll tax to gross margins the corporations were classified into the various profit groups as shown in chart XXXIV for 21 industries. It is apparent from this diagram that the pay-roll tax ratio is larger in the case of the less profitable corporations than in the case of the more profitable group. This observation applies to most manufacturing industries and, somewhat less clearly, to the trade groups. It does not apply to tobacco, beverages (little or no variation) and printing. To this extent the pay-roll may be said to be a "regressive" tax, falling more heavily upon the less profitable corporations.

These data on manufacturing and trade corporations unfortunately do not show the full range of the variation in the magnitude of the pay-roll taxes since other industries are perforce lacking from the comparison. It can readily be assumed that the pay-roll tax is probably very low in public utilities (other than transport) where labor costs are relatively low while capital costs are high. In construction, on the other hand, the pay-roll taxes are probably high since the labor-capital equation is probably tilted upward for the former. But enough data are available to prove that the pay-roll tax adds to the costs of production in substantially different magnitudes in the various industries, according to the dominance of labor or mechanization. The present level of the differential is after all relatively slight, but with the gradual step-by-step increase of pay-roll tax rates in future years the differential may become of great significance to the relationship between labor and mechanization.

This conclusion must, of course, be understood in terms of the special purposes for which payroll taxes are levied—old age and employment security of industrial workers. The differential arises out of the selection of pay rolls as the tax base, but labor, as is well known, is only one among several cost factors. The security problems that are to be solved, or at least ameliorated, by the use to which the pay-roll taxes are put are by no means peculiar to industries employing labor in preference to machines. As a matter of fact there have been those who have attributed a goodly share of the rising economic problems subsumed under the general term of security to the accelerated growth of mechanization.

FEDERAL EXCISE TAXES [4]

The various excise taxes imposed by the Federal Government—import duties, selective manufacturers' and dealers' excises, tobacco, and alcohol taxes, stamp taxes, the short-lived processing taxes, etc.—are generally regarded by the taxed producer as business costs which he expects to shift, usually forward to the consumer, for whom they

[4] This and the following section have been primarily contributed by Miss Helen Tarasov of the Division of Industrial Economics, Department of Commerce.

then become "indirect taxes." But as this report is concerned with business taxes, it is from the standpoint of the first payer that the Federal excises will be analyzed. This section on Federal excises differs in several major respects from the treatment of other taxes in this report. The relationship of such taxes to business costs will be measured in terms of sales exclusively. No size analysis is presented, but industry differences are stressed.

The oldest Federal excise was the whisky tax, imposed in 1790. Tobacco taxes were first levied as a war measure in 1862. During and immediately following the Civil War the Federal Government imposed a variety of specific ad valorem taxes on commodities, most of which were shortly repealed. The World War again witnessed the enactment of a series of manufacturers' excises on a strange conglomeration of "nonessentials" ranging from chewing gum to life insurance and from medicinal preparations to yachts. The coming of peace and the return to "normalcy" led to the automatic expiration or repeal of many of these taxes. But others lingered on, for reasons not overly clear. The record of Federal excises during the period from 1918 to the present, as reported in tax-collection figures, is wildly erratic, and this may be an understatement.

Electric fans and lighting fixtures were taxed from 1920 through 1924, but electrical energy remained tax free until 1933. Firearms were free in 1918 and 1919, and again between 1927 and 1932, while knives (including hunting, bowie, dirks, and daggers) were taxed only in 1920–24, as well as the hunting garments presumably worn with them. Sculptures, etc., were a taxable luxury until 1927. From 1925, the excise on manufacturing opium for smoking was lifted. The adulteration of foods has been sporadically permitted, fiscally speaking, by little loopholes, such as the nontaxing of adulterated butter in 1929 and in 1931, of its manufacturers in 1931–32, of its wholesale dealers in 1922, 1932, 1926–30, and of retail dealers for even longer. Various lapsed entertainment excises were never resuscitated, being succeeded by levies on checks and safety-deposit boxes.

In table IX is presented the actual Federal excise tax experience of 5,328 manufacturers in 1938, as reported by questionnaire to Dun & Bradstreet in its recent survey of business taxation. The magnitude of the tax is measured in percent of sales and in percent of total tax payments. The highest tax-sales ratios are reported for the liquor, tobacco, and oil industries. Federal excise taxes also play an important role in adding to business costs in canning, drugs, autos, transportation equipment, and electrical apparatus, in the order named. In the case of most other manufacturing industries Federal excise taxes are either relatively unimportant or nonextant. It is, of course, quite improper to draw any conclusions from these figures as to the "tax burden" on the industry, for most Federal excises do not ordinarily rest on the legal taxpayer but are passed along via a complex and subtle process of shifting to the ultimate consumers of the manufactured product. The only comment that can be accurately made in this frame of reference is the marked contrast in the degree to which Federal excises contribute to business costs in different industries.

TABLE IX.—*Federal taxes on manufacturing industries, 1938*

	Federal excises as percent of—	
	Sales	Total taxes paid
Canning	3.71	61.3
Drugs	3.02	65.9
Electrical apparatus	.59	11.2
Autos	1.78	35.4
Transport equipment	.82	14.8
Total manufacturing excluding	.43	11.9
Distilleries and wineries	49.10	98.0
Breweries	32.67	79.3
Petroleum refining	7.91	34.5
Tobacco products	31.26	93.9
All manufacturing	3.01	43.6

Source: Dun's Review, July 1939, p. 14.

Federal excise tax payments of most manufacturing and trade corporations, as reported by 362 identical corporations to the Department of Commerce in its questionnaire survey of business taxation for the Temporary National Economic Committee, appear to have been markedly declining in recent years. This fact is readily apparent from an examination of table X which gives the ratio of Federal excise tax payments to sales for the years 1934–37 by 16 manufacturing industries and 4 trade groups. Taking manufacturing as a whole the Federal excise tax ratio declined from 4.24 percent in 1934 to 3.57 percent in 1935 to 3.16 percent in 1936 to 2.98 percent in 1937, or a decline of 30 percent. This trend is found for most industries (except transportation equipment). This table also shows the marked industry differences in Federal excise taxes, as noted in the preceding paragraph.

TABLE X.—*Federal excise and State sales taxes as percent of sales of 362 manufacturing and trade corporations, 1934–37*

Industry	Number in sample	Year	Total sales (millions of dollars)	Federal excise (percent of sales)	State sales taxes (percent of sales)
Food	30	1934	1,040	1.60	0.07
		1935	1,175	.46	.06
		1936	1,228	.01	.17
		1937	1,255	.40	.16
Beverages	12	1934	20	30.94	4.25
		1935	25	33.63	3.75
		1936	33	31.62	3.76
		1937	36	28.59	3.35
Tobacco	10	1934	353	44.27	.29
		1935	360	43.61	.31
		1936	392	42.60	.29
		1937	429	42.81	.31
Textiles	22	1934	200	1.76	.00
		1935	252	.69	.01
		1936	281	.00	.01
		1937	281	.00	.01
Lumber	1	1934	4	----------	.30
		1935	5	----------	.35
		1936	7	----------	.40
		1937	8	----------	.36
Paper	10	1934	68	.16	.01
		1935	79	.03	.01
		1936	93	.00	.15
		1937	117	.00	.01

TABLE X.—*Federal excise and State sales taxes as percent of sales of 362 manufacturing and trade corporations, 1934–37*—Continued

Industry	Number in sample	Year	Total sales (millions of dollars)	Federal excise (percent of sales)	State sales taxes (percent of sales)
Printing	13	1934	86	3.74	.02
		1935	91	3.25	.03
		1936	100	3.13	----------
		1937	107	2.86	----------
Chemicals	21	1934	283	1.64	.05
		1935	313	1.51	.04
		1936	357	1.14	.05
		1937	396	.98	.08
Petroleum	3	1934	740	4.79	13.35
		1935	753	4.98	14.47
		1936	836	4.94	14.85
		1937	925	4.70	14.48
Rubber	2	1934	108	4.96	.01
		1935	132	4.79	.02
		1936	164	4.16	.01
		1937	189	3.52	.01
Leather	1	1934	5	----------	.01
		1935	6	----------	.01
		1936	8	----------	.00
		1937	6	----------	.01
Building products	19	1934	142	.02	.09
		1935	163	.01	.08
		1936	221	.02	.06
		1937	266	.02	.08
Iron, steel	19	1934	554	.01	.07
		1935	716	.01	.07
		1936	1,013	.01	.06
		1937	1,269	.01	.05
Nonferrous metals	18	1934	387	.01	.03
		1935	436	.01	.06
		1936	341	.01	2.20
		1937	741	.00	.14
Machinery and tools	62	1934	691	.22	.04
		1935	920	.21	.02
		1936	1,175	.19	.04
		1937	1,521	.17	.04
Transportation equipment	47	1934	705	1.58	.03
		1935	965	1.71	.02
		1936	1,261	1.81	.03
		1937	1,503	1.74	.03
Miscellaneous manufacturing	22	1934	435	.67	.04
		1935	498	.68	.03
		1936	572	.58	.03
		1937	621	.57	.03
Total manufacturing	312	1934	5,821	4.24	1.75
		1935	6,888	3.57	1.63
		1936	8,282	3.16	1.69
		1937	9,672	2.98	1.45
Chain stores	26	1934	1,496	.05	.49
		1935	1,598	.01	.56
		1936	1,764	.00	.59
		1937	1,864	.00	.55
Department stores	14	1934	727	.01	.08
		1935	867	.03	.05
		1936	1,069	.03	.05
		1937	1,184	.02	.06
Wholesale	7	1934	74	----------	.04
		1935	80	----------	.03
		1936	94	----------	.05
		1937	136	----------	.04
Miscellaneous trade	[illegible]	1934	22	.16	.82
		1935	23	.28	1.06
		1936	26	.03	1.19
		1937	28	.01	1.74
Total trade	0	1934	2,319	.34	3.51
		1935	2,568	.21	3.77
		1936	2,953	.13	3.83
		1937	3,213	.10	3.50
Total	362	1934	8,139	30.45	13.52
		1935	9,456	26.07	12.90
		1936	11,234	23.32	13.49
		1937	12,885	22.42	11.73

Source: Department of Commerce Survey of Business Taxation.

STATE SALES AND GROSS INCOME TAXES

The trend toward taxation of the consumer is particularly evident in the recent history of State sales and use taxes. Confronted with seriously curtailed revenues from property and income taxes, legislators turned to sales taxes as a means of financing expenditures for social welfare, particularly relief deficiencies and pensions. The high point in sales taxes was in 1937, with 27 States, plus the District of Columbia and New York City, levying it (against 6 States in July 1932). Although the number of States fell to 23 States plus New York City in 1939, the proportion of State revenue derived from sales taxes has risen, as a result of better enforcement, higher tax rates, and the wide enactment of use taxes. Another manifestation of the trend toward State taxation of the consumer is (*a*) adoption by 5 States of new tobacco taxes in 1939, make a total of 26 States with tobacco taxes; (*b*) increase in or extension of motor-vehicle levies in 22 States; and (*c*) raising or continuance of gasoline tax rates in 7 States.

There are distinct regional preferences apparent for certain taxes, and their distribution will, of course, affect business costs to a considerable measure, with the actual effect on sales dependent on industrial location or proximity to nontaxed areas. Thus, none of the Western States except Washington, Utah, and Arizona tax tobacco, while this tax is particularly popular in the South and more recently in the East. The sales tax is found in no Atlantic Seaboard State, but originated in and is most represented by the Middle West, where in certain sections it has expanded into a gross-receipts tax on business. A special study by the Department of Commerce indicates that regional differences in State sales taxes affected the transfer of business only under particularly favorable conditions for such transfer, i. e., conveniently located retail establishments across a State border within easy reach. Since the tax is usually in fact as well as by law transferred to the consumer, the transfer of business is obviously limited.[5]

Table XI gives the sales-tax experience for 6,000 manufacturing, 2,000 wholesalers, and 16,000 retailers as reported to Dun & Bradstreet for 1938, measuring sales as percents of (*a*) sales and (*b*) total taxes. The record for any specific industry is apparent upon inspection. It is quite evident that, although manufacturing in general pays a higher percentage of aggregate sales in the form of State sales taxes, such taxes nevertheless are of less importance in adding to business costs, as other taxes are substantially larger. Only 12.3 percent of its tax costs are due to these taxes, while 32.7 percent of all retailers' taxes are caused by them. Thus, although the percentage of aggregate sales taken by these taxes is only 0.70 percent, they are more noticeable in view of the lesser role of other taxes, since all taxes on retailers are only 2.14 percent. Wholesalers, who pay only half the total taxes on aggregate sales that manufacturers do, must reckon with sales and excises as a prime business cost, as they are 61 percent of the total taxes paid.

[5] H. P. Warhurst, "The Effect of General States Tax Levies on Retail Sales Increase, 1933–35" (Bureau of Foreign and Domestic Commerce).

TABLE XI.—*State sales taxes as percent of sales, 1936*

PART I. MANUFACTURING

	Percent		Percent
Meat packing	0.01	Machine shop products	0.09
Hosiery	.01	Foundries	.11
Nonferrous metal products	.01	Engines and machinery	.11
Transport and agricultural machinery	.02	Newspapers (small)	.11
Textile weaving	.02	Baking and confectionery	.12
Shoes	.02	"All other" forest products	.16
Newspapers and periodicals (large)	.02	Stone and stone products	.19
Hardware	.04	Printing and bindery (book jobs)	.21
Canning and food manufacturing	.04	Industrial chemicals	.21
Flour and feed milling	.06	Paints, varnish, and lacquers	.23
Dairies, creameries, milk dealers	.07	Furniture	.25
Drugs, perfumes, cosmetics	.07	Distilleries and wineries	.29
Clothing	.07	Lumber and planing mills	.35
Paper and paper products	.08	Beverages—nonalcoholic	.73
Clay and glass products	.08	Ice manufacturing	.87
"Other" manufacturing	.08	Breweries	6.48
Electrical apparatus and appliances	.08	Petroleum refining	11.47
Iron and steel	.08	Total, except distilleries, petroleum, tobacco	.09
Automobiles	.08	All manufacturing	.85

PART II. WHOLESALE TRADE

	Percent		Percent
Dairy and poultry products	0.00	Paper and paper products	0.23
Produce and fruit	.03	Paints and varnishes	.25
Meat and fish	.04	Plumbing and heating supplies	.27
Dry goods and apparel	.12	Drugs and industrial chemicals	.31
"Other" wholesaling	.12	Other miscellaneous supplies	.36
Machinery and equipment	.15	Confectionery and tobacco products	.90
Groceries	.17	Alcoholic beverages	4.65
Lumber, building material, and fuel	.19	Petroleum products	12.38
Hardware	.20	All wholesale (except alcohol and petroleum)	.19
Electrical goods and appliances	.20	All wholesale	2.16
Automotive equipment	.22		

PART III. RETAIL TRADE

	Percent		Percent
Drugs and cosmetics—chains	0.15	Radio, electrical, gas household appliances	0.72
Mail-order houses	.20	Jewelry	.73
Farmers supply stores	.26	Shoes—independent	.74
Bakeries—independent	.31	Paint, wallpaper, glass	.74
Florists and nurseries	.32	Groceries and meats—independent	.74
Shoes—chains	.34	Lumber and building materials	.75
Bakeries—chains	.40	Auto accessories and parts—chains	.75
Filling stations	.43	Women's clothing, accessories—independent	0.77
Groceries—independent	.45	Coal and other fuel	.79
Hardware and farm implements	.49	Variety stores—independent	.86
Meats and fish	.50	General merchandise and dry goods	.86
Other food and beverage stores	.54	Department stores—independent	.89
Auto accessories and parts—independent	.59	Furniture	.89
Motor vehicle dealers	.61		
Variety stores—chains	.62		
Department stores—chains	.63		
Family clothing	.70		
Country general stores	.72		

TABLE XI.—*State sales taxes as percent of sales, 1936*—Continued

PART III. RETAIL TRADE—Continued

	Page		Page
Farm implements	0. 93	House furnishings and floor coverings	1. 11
Drugs and cosmetics—independent	. 94	Restaurant, etc.—independent	1. 14
Men's, boys' clothing, and furnishings	. 96	Restaurant, etc.—chains	1. 55
Groceries and meats—small chains	. 98	Hardware	. 70
"All other" retail stores	1. 00	All retailing	. 70
Stationery, books, newsdealers	1. 05	Independent retailers	. 70
		Chain organizations	. 74

Source: Dun's Review, July 1938, pp. 14–15.

The role of State sales taxes throughout retailing is far more significant than for wholesaling, where they account for only 13 percent of total taxes (if alcoholic beverages and petroleum products are excluded), while they form about one-third of total retailers' taxes, and fall below 25 percent for just over one-fourth of the types of retailing involved.

The effect on industrial activity depends on whether the variable-cost tax is passed on to the consumer and in what form (lower quality, lesser quantity, higher price) or absorbed by the manufacturer or trader, or passed back as lower prices for labor or raw materials, as may be the case if a product is subject to elastic demand and if its producer has a strong position vis-a-vis his employees or his supplier. A shift in sales volume may affect business costs adversely; particularly if fixed costs are large, the decrease in variable taxes resulting from a decline in sales may never compensate for the lower turn-over. Contrariwise, the higher variable taxes on increasing sales may not be a deterrent, since the margin increases with volume. Nor will industry with high variable costs be discouraged from expanding by commodity or sales taxes, but it will have to regard them as a basic cost factor when it sets prices. For the fixed-cost industry, the variable taxes are a secondary factor in price policy, since it must first of all seek volume, and if demand is elastic, it may be preferable to absorb at least some of the commodity and sales taxes for the sake of expanding the market.

How each industry treats these variable taxes depends on its own peculiar cost and competitive conditions. Nor is it known what the consumption of a product or group of products might have been in the absence of a levy on it—although figures do show that the consumption of the most heavily taxed commodities, viz, gasoline, liquor, cigarettes, has risen steadily despite the onerous tax levies imposed on them and almost certainly passed on to the consumer. Concretely, it appears that the sharp and sudden increase of the tobacco tax in Wisconsin last year led to only a temporary decrease in State cigarette sales, and that tax receipts are now fulfilling expectations.

Other factors, apparently, play a prime role in determining sales volume of semiluxury products at least, with tax rates only reinforcing or temporarily counteracting a trend established by general income level, custom, fashion, weather, etc. Fluctuations of business costs therefore depend only indirectly on variable taxes, and the relationship is further complicated by the effect of whatever policy is followed on sales volume and its reaction on business costs. The effect on consumption must be regarded as the prime consideration.

CHAPTER X

FIXED-COST TAXES: STATE PROPERTY TAXES AND SPECIAL TAXES ON CORPORATIONS

The "fixed-costs" taxes appear to be "fixed" in more senses than one. They are termed as "fixed-costs" since their magnitude is usually unrelated to the volume of industrial activity but is instead based upon the value of property—real, personal, or intangibles (as a "franchise"). In this respect they are assimilable to interest and rent costs. But these taxes may be regarded as "fixed" in another sense—their magnitude has changed very slightly over the recent years. Thus the dollar amount of "fixed-cost" taxes of an identical group of 362 large manufacturing and trade corporations increased only 17 percent between 1934 and 1937, while sales increased 58 percent and net profits increased 112 percent. The ratio of such taxes to sales actually declined from 1.19 percent in 1934 to 1.04 percent in 1935 to 0.90 percent in 1936 and to 0.83 percent in 1937. This decline appeared in all size classes.[1] Of course there have been some variations in the magnitude of such tax payments—depending upon the rate structure, the methods of assessment, and property values, but these changes have been relatively minor in comparison to changes in the volume of income, sales, and pay-roll tax payments.

PROPERTY TAXES

The oldest and still very important tax collected from business enterprise is the State and local taxes on real and personal property. It is a tax which is periodically and universally condemned. Its relative position in the tax hierarchy has been steadily declining for several decades. It was never employed by the Federal Government, in part for constitutional reasons. It has been gradually abandoned or sharply curtailed for purposes of State revenue.[2] Yet the property tax is still the main tax source of most local governments (as shown in chart I, supra), whether they be counties, cities, school districts, park districts, sanitary districts, health districts, mosquito-abatement districts, or some other of the fabulously numerous types of special-purpose, ad hoc authorities.

The magnitude of the property tax payments of a bsuiness enterprise is a function of three factors—(*a*) the legal rate of the tax and the relationship between (*b*) the assessed value, and (*c*) the actual value of the property taxed. The property tax rates vary from State to State, from county to county, from city to city, and from township to township, and so through that labyrinthine maze of 175,000

[1] See Appendix D.

[2] Nevada is the single State obtaining a major share of its revenue from property taxes, presumably in substantial part from mining properties. See U. S. Bureau of the Census, Financial Statistics of States, 1937, table 1.

units of government in the United States. The tremendous variation of the property tax rates occurs not only between different units of government but may also be found within the same area (e. g., in the Chicago metropolitan area). These variations are so complex and so shifting that no general statement can at present be made with any degree of precision.[3]

Empirical studies of the administration of the property tax have generally shown that the assessment of property tends to be regressive—that is, "a definite and pronounced tendency for the average assessment ratio to decline as the value of the property * * * increased." [4] The actual tax experience of 5,000 manufacturers, 1,900 wholesalers, and 16,000 retailers filing special tax data with Dun & Bradstreet for 1938 confirm this generalization. The relative magnitude of the property tax (measured in percent of sales) tends to vary inversely with business size (based on 4 sales classes)—that is, the tax ratios are larger on the smaller enterprises and smaller on the larger enterprises. See chart XXXV.

The property tax is "regressive" in another sense—it is relatively larger on the less profitable corporations and smaller on the more profitable group. This fact is clearly apparent from an analysis of the tax experience of 572 manufacturing corporations for 1937 which have been grouped into 10 profit classes, based on the ratio of profits to invested capital. In substantially each case the property tax is relatively higher on the unprofitable and low profitable group and relatively lower on the highly profitable group. See chart XXXVI.

BUSINESS PRIVILEGE AND LICENSE TAXES

Another type of the fixed-cost taxes is the group of special business taxes which are imposed at either a flat rate or are based on some capital magnitude. Nominally the Federal Government imposes a capital stock tax at the rate of $1 per $1,000 declared capitalization, but as has already been shown in chapter V of this report, the Federal capital stock tax is probably more like an income tax than any other type of tax. It is of course like the fixed-cost taxes in that it must be paid regardless of the volume of business activity or the magnitude of corporation profits, provided a positive capital declaration had been filed with the Bureau of Internal Revenue. If no profits had been anticipated the corporation could have declared a capitalization of zero or the equivalent, and no capital stock tax need have been paid. The Federal capital stock tax is essentially like an income tax in that its magnitude is more or less based on capitalized earning power, at least as anticipated.

State and local taxes on corporations may be classified into three principal types, (*a*) corporation organization and entrance taxes, (*b*) annual corporate taxes based on capital stock or some variant thereof, and (*c*) annual corporate taxes based on or measured by net income.

The initial tax costs of organizing a corporation are usually so small in actual dollar outlays that they cannot be accurately said to constitute any substantial deterrent to the establishment of new enterprises

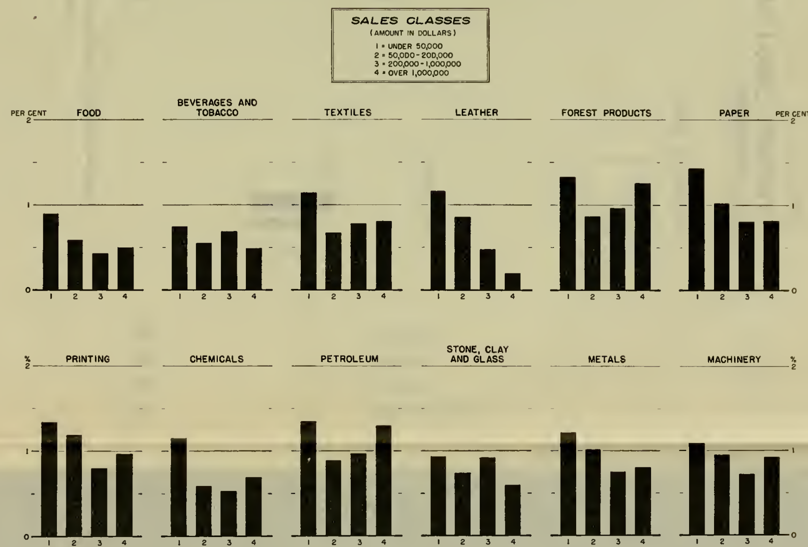
[3] Special constitutional limitations may of course put upper limits to the range of the variations.

[4] Joseph D. Silverherz, The Assessment of Real Property in the United States (Special Report of the New York State Tax Commission, No. 10), p. 213.

Chart XXXV

STATE AND LOCAL PROPERTY TAXES AS PER CENT OF SALES
INDUSTRIES, CLASSIFIED BY SALES
1938

PART I - 5,328 MANUFACTURING CONCERNS



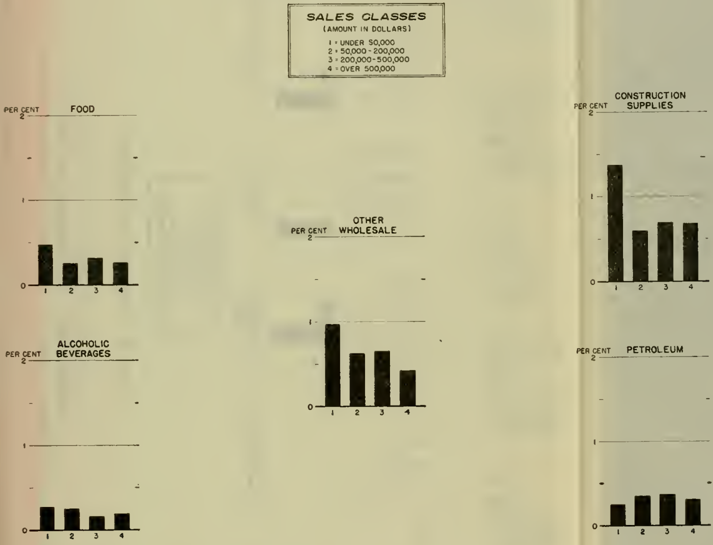
SOURCE: Tax Survey work sheets of the Research and Statistics Division of Dun and Bradstreet, Inc.

Department of Commerce.

Chart XXXV—Continued

STATE AND LOCAL PROPERTY TAXES AS PER CENT OF SALES
INDUSTRIES, CLASSIFIED BY SALES
1938

PART II - 1,912 WHOLESALE CONCERNS



SOURCE: Tax Survey work sheets of the Research and Statistics Division of Dun and Bradstreet, Inc.

Department of Commerce.

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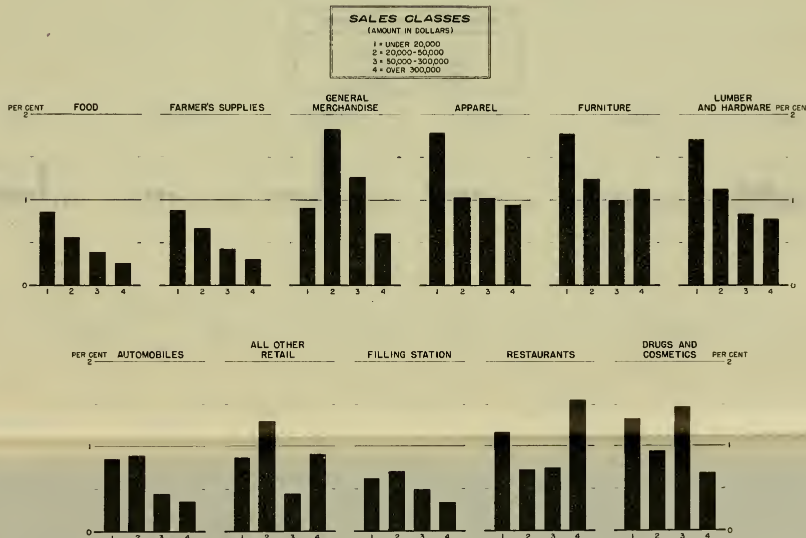
CHART XXXV—Continued

STATE AND LOCAL PROPERTY TAXES AS PER CENT OF SALES
INDUSTRIES, CLASSIFIED BY SALES
1938

PART III - 15.968 RETAIL CONCERNS



SOURCE: Tax Survey work sheets of the Research and Statistics Division of Dun and Bradstreet, Inc

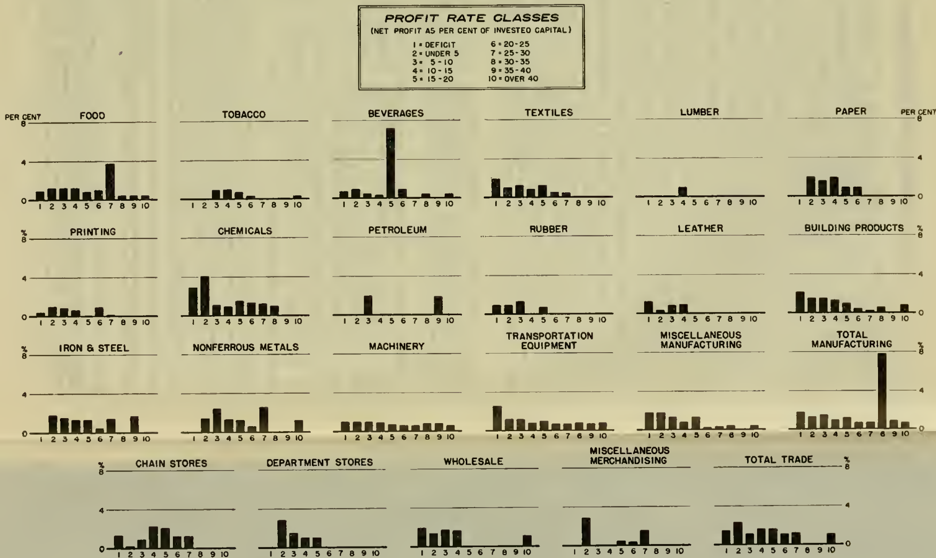
Department of Commerce.

CHART XXXVI

STATE AND LOCAL PROPERTY TAX PAYMENTS AS PER CENT OF GROSS MARGIN

572 LARGE MANUFACTURING AND TRADE CORPORATIONS BY PROFIT RATE CLASSES

1937



Source: Department of Commerce Survey of Business Taxation.

in the corporate form.[5] Yet the small pecuniary or fiscal importance of such taxes should not permit a disregard of the marked size discriminations characteristic of the relevant statutory provisions of most States. The corporate organization entrance tax is typically based on some element of the financial structure of the corporation (e. g., paid-in capital stock). In more than half the States [6] the tax is regressive on the face of the statute; that is, the tax rate is relatively lower on corporations with large capital. In one State (Georgia) the tax is a flat amount ($15) while in another State (Arizona) the magnitude of the tax depends upon the number of folios filed. In 19 States [7] the tax is nominally proportional; that is, the rate of the tax is the same irrespective of the amount of capital involved in the base. Only in South Carolina is the tax rate progressive in form; that is, the statutory rate is relatively higher on corporations with large capital.[8]

A maximum tax (ranging from $100 in Alabama to $2,500 in Louisiana, Texas, and Washington) is set in at least 7 of the 25 States where the tax is regressive, while substantially all the States set a minimum tax. The one feature operates in favor of large corporations while the latter provision is somewhat to the disadvantage of small corporations. The problem of effective administration is usually weightier than the potential yield of revenue, with the result that the actual amounts collected are usually insubstantial in dollar magnitude.[9] In a special study of corporate organization and entrance taxes, the National Industrial Conference Board concluded that such taxes are—

> heaviest on corporations with a small capitalization and light on corporations with large capital * * * bearing down upon the small corporation, which cannot easily avoid the tax, and treating gently the large corporation, which might otherwise be induced to arrange its method of incorporation so as to avoid a considerable part of the tax.[10]

The State corporate privilege taxes (annual) are usually based on capital stock, variously defined as "authorized," "issued," "outstanding," "subscribed," "paid-up," or a combination of the foregoing. In a few States surplus and/or undivided profits are also included in the tax base. Indebtedness is specifically included only in two States.[11] In no State is the corporation tax progressive in its statutory terms. Regressivity appears on the statutory face of the franchise tax in at least 21 States, in 12 of which a maximum tax limit is specified.[12] To this group of 21 States should be added the

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5 Accurate figures on tax collections from this source are unfortunately lacking. The Treasury estimated that in 1938 the States collected only $313.000,000 in the form of corporate privilege taxes. Of this figure approximately $200,000,000 were corporate income taxes. The greater share of the remaining $100,000,000 was presumably derived from annual franchise taxes other than on income.

6 Arkansas, California, Colorado, Delaware, Florida, Idaho, Kansas, Maine, Indiana, Mississippi, Montana, Nebraska, Nevada, New Hampshire, North Dakota, Ohio, Oregon, Rhode Island, South Dakota, Tennessee, Texas, Vermont, Virginia, Washington, and Wyoming.

7 Alabama, Connecticut, Illinois, Indiana, Iowa, Kentucky, Louisiana, Massachusetts, Michigan, Minnesota, Missouri, New Jersey, New Mexico, New York, North Carolina, Oklahoma, Pennsylvania, Utah, and Wisconsin.

8 Apparently no tax is imposed by the State of West Virginia. All statements are based on Tax Systems of the World (7th ed., 1938), pp. 176–80.

9 "The organization charges are so small an item in the budget of an individual corporation that they are of negligible importance." National Industrial Conference Board, State and Local Taxation of Business Corporations (1931), p. 42.

10 Ibid., p. 41.

11 E. g., in Louisiana and Texas. See a special research bulletin issued by the Federation of Tax Administrators on Annual Corporation Franchise Taxes (January 21, 1939).

12 Delaware, Florida*, Georgia*, Idaho*, Illinois*, Kansas*, Maine, Maryland, Michigan*, Nebraska*, New Hampshire*, New Jersey, Oklahoma*, Oregon*, Tennessee*, Texas, Vermont*, Washington*, West Virginia, and Wyoming. The asterisk identifies the States imposing a maximum tax. In Maryland, Oregon, and West Virginia foreign corporations are taxed at somewhat higher rates than domestic corporations.

three States imposing a flat rate franchise tax [13] and perhaps the two States purporting to collect a franchise tax at general property rates,[14] making a total of 26 States having "regressive" corporation taxes. The franchise tax is nominally proportional in 14 States,[15] but a minimum tax is usually required, irrespective of the size of capital in the tax base.

The "actual significance" of these size differences in State corporate privilege taxes were found by the National Industrial Conference Board to be "relatively slight," except possibly in the case of "the small corporation doing chiefly a local business that has grounds for complaint because of the exemption of its unincorporated competitors." [16]

The State corporate privilege taxes are also "regressive" in the sense that they are relatively heavier on the less profitable corporations and lighter on the more profitable corporations. This statement is graphically shown in table XII wherein are plotted the actual tax experience of 572 manufacturing and trade corporations, classified by 10 profit classes (based on the ratio of "net before interest" to invested capital, including long-term debt).

TABLE XII.—*State corporate taxes as percent of gross margin, by profit rate classes and industries, 1937*

PART I. FRANCHISE TAX AS PERCENT OF GROSS MARGIN

Industries	Profit rate classes									
	Deficit	Under 5	5 to 10	10 to 15	15 to 20	20 to 25	25 to 30	30 to 35	35 to 40	Over 40
Food	0.0	0.1	0.1	0.1	0.3	0.2	0.0	0.0	0.1	0.0
Tobacco	------	------	.3	.3	------	.1	------	------	------	.1
Beverages	.2	------	.0	.0	.3	.1	------	.0	------	.1
Textiles	.2	.1	.1	.2	.2	.0	.2	------	------	------
Lumber	------	------	------	.1	------	------	------	------	------	------
Paper	------	.4	.2	.2	.4	.2	------	------	------	------
Printing	.0	.1	.0	2.2	------	.0	.0	------	------	------
Chemicals	.3	.2	.3	1.1	.2	.0	.2	.1	------	.0
Petroleum	------	------	.3	------	------	------	------	------	------	------
Rubber	.2	------	.1	------	.1	------	------	------	------	------
Leather	.8	.2	.1	.0	------	------	------	------	------	------
Building products	.2	.1	.2	.1	.1	.1	.1	.1	------	.1
Iron and steel	------	1.2	.1	.2	.0	.5	------	------	.2	------
Nonferrous metals	------	.1	.1	.0	.1	.2	.2	------	------	.3
Machinery	.2	.1	.1	.0	.2	.1	.3	.1	.0	.0
Transportation equipment	.3	.4	.2	.1	.1	.0	.1	.1	.1	.0
Miscellaneous manufacturing	.5	.5	.1	.1	.1	.2	.4	.0	------	------
Total manufacturing	.23	.28	.16	.18	.16	.03	.26	.08	.07	.05
Chain stores	.4	.0	.5	.2	.2	.2	.1	------	------	------
Department stores	------	.1	.2	.0	.1	------	------	------	------	------
Wholesale	.1	.5	.1	.3	------	------	------	------	------	------
Miscellaneous merchandise	------	.1	------	------	.0	.1	------	------	------	------
Total merchandise	.30	.09	.40	.14	.13	.20	.12	------	------	------

[13] Arizona, Connecticut, and Nevada.

[14] Minnesota and Indiana (said not to be enforced in the latter State).

[15] Alabama, Arkansas*, Colorado*, Kentucky*, Louisiana*, Mississippi*, Missouri, New Mexico*, North Carolina*, Ohio*, Pennsylvania, Rhode Island, South Carolina*, and Wisconsin*. The asterisk indicates that a minimum tax is required.

[16] State and Local Taxation of Business Corporations (1931), p. 127. This report added that the "advantages of large-scale operation more than offset the special burden of corporate taxation." On an earlier page (125) it reported that "on the whole, the taxes levied on corporations in the leading industrial States appear to be heavier than those levied in the primarily agricultural States, a fact which suggests that such factors as access to raw materials and markets, the character of transportation facilities, and the extent of the supply of labor are usually more important considerations in promoting industrial growth than the matter of relative tax burdens."

TABLE XII.—*State corporate taxes as percent of gross margin, by profit rate classes and industries, 1937*—Continued

PART II. STATE INCOME TAXES AS PERCENT OF GROSS MARGIN

Industries	Profit rate classes									
	Deficit	Under 5	5 to 10	10 to 15	15 to 20	20 to 25	25 to 30	30 to 35	35 to 40	Over 40
Food	0.2	0.1	0.3	0.4	0.6	------	------	0.1	1.5	1.1
Tobacco	------	------	.3	1.2	.2	0.4	------	------	------	1.1
Beverages	.0	------	------	------	.5	------	------	.1	------	1.0
Textiles	.3	.1	.2	.5	------	.4	0.9	------	------	------
Lumber	------	------	------	.1	------	------	------	------	------	------
Paper	------	.1	.4	------	.3	.3	------	------	------	------
Printing	------	.0	.2	.5	------	.6	.5	------	------	------
Chemicals	.0	.1	.2	.3	.5	.6	.1	.5	------	------
Petroleum	------	------	.2	------	------	------	------	------	.3	------
Rubber	.6	------	.1	------	.2	------	------	------	------	------
Leather	.1	.0	.2	.1	------	------	------	------	------	------
Building products	------	.1	.3	.2	.2	.4	.0	.7	------	1.3
Iron and steel	------	.2	.1	.1	.1	.8	.6	------	------	------
Nonferrous metals	------	.1	.9	.3	.8	.2	.2	------	------	------
Machinery	.0	.1	.3	.2	.5	.3	.4	.2	.2	.2
Transportation equipment	.0	.2	.1	.1	.2	.1	.1	.0	.1	.1
Miscellaneous manufacturing	------	.0	.3	.3	.6	.2	.6	------	.6	.6
Chain stores	.1	.1	.1	.3	.4	.4	.5	------	------	------
Department stores	------	.3	.3	.2	.2	------	------	------	------	------
Wholesale	------	.0	.2	1.4	------	------	------	------	------	.5
Miscellaneous merchandise	------	.1	.0	------	.3	.1	.4	------	------	------

NOTE.—The profit rate is based on the percentile ratio of net before interest to invested capital (including long-term debt).

Source: Department of Commerce Survey of Business Taxation.

Somewhat offsetting this picture of regressivety in the State taxation of corporations is the fact that (*a*) in at least 8 States the franchise tax on corporate capital has been practically superseded by a tax on corporate income [17] and (*b*) in some 24 States [18] corporations are subject to an income tax as well as the annual franchise and privilege taxes.

The National Industrial Conference Board has commented on the shift from a capital-stock tax to an income tax as tending "to accentuate the tax burden on business corporations."

> Capital-stock tax bears on the prosperous and unsuccessful corporations alike. The income tax relieves the latter and places a heavier burden on the former, unless a capital-stock tax is used as a minimum for the income tax * * *. [The income tax] bears more heavily than a capital-stock tax on large corporations, while for small corporations the reverse is true.[19]

State taxes on corporate income have been steadily growing in importance in recent years, whether measured in terms of the number of States imposing such taxes or in terms of the dollar magnitude of taxes collected from specific corporations. Between 1930 and 1940 more than 17 States [20] adopted taxes applicable to corporate income.

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[17] California, Iowa, Massachusetts, Montana, New York, North Dakota, South Dakota, and Utah. In Massachusetts there is still said to be a "corporate excess" tax but it is substantially merged with the income tax. Under the so-called franchise tax of New York, which is fundamentally based on net income, a minimum tax of $25 is required—in effect a privilege tax on capital for unprofitable corporations. The North Dakota and South Dakota taxes contain—progressive rate structures.

[18] Alabama, Arizona,* Arkansas, Colorado, Connecticut, Georgia, Idaho,* Kansas, Kentucky, Louisiana, Maryland, Minnesota, Mississippi,* Missouri, New Mexico, North Carolina, Oregon, Oklahoma, Pennsylvania, South Carolina, Tennessee, Vermont, Virginia, and Wisconsin.* The asterisk indicates that the rate structure is progressively graduated.

[19] State and Local Taxation of Business Corporations (1931), p. 87.

[20] 1931—Idaho, Ohio, Oklahoma, Utah, and Vermont; 1933—Alabama, Arizona, Kansas, Minnesota, and New Mexico; 1934—Iowa and Louisiana; 1935—Pennsylvania and South Dakota; 1936—Kentucky; 1937—Colorado and Maryland.

Taking an identical group of 362 large corporations for a recent 4-year period (1934–37), State taxes on corporate incomes increased 217 percent, a rate of growth greater than that for any other type of tax, while State franchise and privilege taxes increased only 125 percent, or only half as rapidly as the former. Measured in terms of sales, State taxes on corporate income steadily increased from 0.08 percent in 1934 to 0.12 percent in 1935 to 0.16 percent in 1936 and to 0.17 percent in 1937, while the franchise tax, measured in similar terms, increased only from 0.07 percent in 1934 to 0.10 percent in 1935 and 1936 to 0.11 percent in 1937.[21]

The fixed-cost taxes—the property tax and State corporation taxes (except those on income)—are markedly regressive in at least two senses—they are relatively heavier on small business and lighter on big business and they are likewise relatively heavier on the less profitable enterprises and lighter on the more profitable enterprises.

[21] See appendix D.

CHAPTER XI

CONCLUSIONS

The tax system is at once a source of public revenue and a technique of governance. It is seldom exclusively one or the other. This is a fact which has been clearly recognized by the lawmakers ever since the inauguration of the Federal constitutional system. The tariff is one of the outstanding examples of the use of taxation to effectuate economic policies, i. e., the development of an industrial economy. The enactment of the Federal corporation excise tax in 1909 was declared by President Taft to be "a long step toward that supervisory control of corporations which may prevent further abuse of power." Other examples are readily available in American tax history.

In its fiscal aspects the tax system is designed to raise adequate revenues for the great public needs without harmful consequences to the economy as a whole or to specific sectors of it. An equally important desideratum is that the tax system, as it works out, should synchronously mesh with the broad social and economic policies that have been democratically accepted by the Nation. The tax system should not work at cross purposes with the objectives of the community and should, moreover, affirmatively contribute to achieving whatever objectives the community has set before it, whether it be on Federal, State, or local levels.

The problems of taxation are therefore not exclusively problems of revenue—notwithstanding the traditional maxim that "taxation for revenue only" is best—but are also problems of government and its relationship to economic enterprise.

Any student of government must be impressed with the powerful tool that the modern state possesses in its tax system. The taxing power can be easily demonstrated to have many advantages over "ordering and forbidding devices" that are conventionally employed by the police state. It does not ordinarily imply a vast bureaucracy; it leaves the specific decisions in the hands of private entrepreneurs; it is largely automatic and immediately effective. Its sanctions strike at the very sinews of economic power—the payment of money. The taxing power, however, is of course neither the exclusive technique available to the modern state, nor one suitable for all ends of policy, but it is one that must be skillfully blended with all the other powers and instrumentalities of government in effectuating common objectives.

It is hazardous to specify in detail which social and economic objectives the Federal Government should at the present time try to achieve through the exercise of its taxing powers. The prejudices of personalities, occupations, and sections are so easily nationalized. Yet it is probably possible to indicate in a broad way a few specific objectives that have been sufficiently accepted by the American democracy that any tax system which runs counter to such objectives. is subject to serious criticism.

Paramount among these nonfiscal desiderata of a "good" tax system within a democratic framework are the following:

(*a*) The discouragement of idleness, whether of men, machines, or money, and, conversely, the encouragement of full employment and utilization of resources;

(*b*) The preservation of opportunities, e. g., by encouraging small business;

(*c*) The curbing of monopoly or at least the profitable fruits of monopoly, possibly including the simplification of corporate structures and, conversely, the check of holding companies and related forms of intercorporate affiliation; and

(*d*) The support of persons in need (in addition to affirmative action via relief and social security) by relieving the tax burden on persons in the lowest income brackets.

These social and economic objectives are frequently in conflict with fiscal needs, e. g., the sales tax. No simple or universal formula can be drawn up and applied. It is always necessary to strike a series of balances between the one and the other.

FEDERAL CORPORATE INCOME TAXES IN GENERAL

Corporate profits have been continuously subject to Federal taxation since 1909. The highest effective tax rates on corporate income (tax as percent of legal income) occurred during the war period (1917 to 1920) when the rates ranged as high as 37.8 percent, while the present effective tax rate (in 1937) on corporate income is 17.3 percent.

The catastrophic decline of corporate profits during the great depression caused a substantial drop in the yield of Federal corporate income taxes. The subsequent improvement of business conditions and the resurgence of corporate profits led naturally to a rise in the yield of Federal corporate income taxes. In the downward spiral of the depression the yield of Federal taxes declined much more precipitously than did corporate profits, primarily because of the allowance for prior years' losses in establishing the tax base. During the recovery period the yield of Federal taxes increased more rapidly than did corporate profits, reflecting the rise in statutory rates. But the discrepancy between the respective rates of increase of taxes and profits was substantially less than that which existed between the rates of decline.

In 1937 corporations, after paying 1¼ billion dollars in taxes to the Federal Government, distributed 8½ billion dollars to noncorporate investors (stockholders and bondholders) and had 4½ billion dollars available for reinvestment or industrial replacement (i. e., profits after taxes and dividends plus depreciation and depletion).

Corporate profits were reduced relatively less by taxes and dividend payments and consequently corporate funds available for reinvestment were relatively larger in the smaller size classes, despite the substantial undistributed-profits taxes to which the smaller corporations were subject in 1936–37.

The Federal corporate tax systems contribute nothing to the resolution of the "monopoly problem," since "monopoly profits" are taxed in the same way and at the same rates as other corporate profits.

Creditor or debt financing is at present encouraged by the Federal tax system through the deductibility (and consequent exemption) of all interest payments. Since dividends distributed are not deducted from corporate net income for Federal tax purposes, and interest payments to bondholders are so deducted, equity financing is discriminated over against creditor financing. Bondholder capital is dominant in public utilities, service, and financial corporations but plays a relatively minor role in manufacturing.

Fluctuating enterprise—which is largely identified with small corporations and such industries as mining, construction, and forest products—is discriminated against by any tax system based on the economic fortunes of a single year. This discrimination was substantially avoided prior to 1931–32 and will largely be eliminated in 1940 when tax-paying corporations will again be permitted to carry over operating losses (for a 2-year period).

The Federal tax system encourages (*a*) agricultural cooperatives (purchasing and marketing) and (*b*) various forms of mutual insurance companies (other than life) by exempting the same from all corporate income taxation. (*c*) Life-insurance companies benefit from a special deduction of all investment income under 4 percent of legal reserves, which is practically tantamount to complete tax exemption of life-insurance companies. (*d*) Operators of oil and gas wells benefit from very substantial depletion deductions based on extraordinary discovery values, the provision for which was introduced by the War Revenue Act, when the opening of new oil and gas fields was essential to the prosecution of the war, and has been retained in the revenue law in substantially unaltered form, long after the passing of the original need.

NORMAL CORPORATE INCOME TAX

Small corporations (usually defined by law as having net income under $25,000) were substantially favored by the Federal revenue acts from 1909 to 1912, inclusive, and from 1918 to 1931, inclusive, by a statutory exemption of the initial $2,000 to $5,000 of net income. The repeal of this exemption at the very nadir of the depression (1932) vaulted the effective tax rates on small corporations by fourfold and fivefold.

Small corporations were subject to the same statutory rates as large corporations from 1932 to 1935, inclusive. The special credits for investment income (i. e., dividends received from domestic corporations and interest received on governmental obligations) have been of little importance to the small corporations since little of their income is derived from investments. Such special credits for investment income have been of considerable importance to the large corporations.

Small corporations have been somewhat favored by the Federal revenue acts of 1936 and subsequent years through the introduction into the corporate income-tax system of a slightly graduated rate structure, based on the magnitude of net income. Available data for 1936–37 indicate that the graduated rate structure does not favor small corporations to the substantial extent noted in the case of the statutory exemption cited in paragraph 9. The revenue acts of 1938 and 1939 narrowed the range of the rate graduation, which was already very slight, so that the favoritism shown small corporations

in 1938 and 1939 is probably less than that found for 1936 and 1937. As a consequence of the second Revenue Act of 1940 the range in rates has again been increased, but it still remains substantially less than in the period prior to 1932.

Between 1917 and 1933, inclusive, the Federal revenue acts permitted the filing of consolidated corporate income-tax returns in which the losses of individual subsidiaries were deductible from the profits of other members of the corporate group. This device substantially facilitated the continued existence and rapid growth of vast networks of interaffiliated corporate systems and pyramids of intertwined holding companies. A slight tax penalty (at the rate of 0.75 and 1 percent) was imposed on consolidated returns in 1932 and 1933. Starting in 1934 only railroads and related common carriers have been permitted to file consolidated corporate income-tax returns.

Except for the period from 1913 to 1917, inclusive, intercorporate dividends in the hands of the recipient corporation have been substantially exempt from Federal taxation. Between March 1913 and 1917 all intercorporate dividends were subject to taxation in the hands of the recipient at the same statutory rate as other corporate income. Starting with 1936, the exemption of intercorporate dividends has been limited to 85 percent of the same, which is equivalent (at the present statutory rate of 24 percent) to a tax on intercorporate dividends at the rate of 3.6 percent. By such treatment of intercorporate dividends, the Federal tax laws obviously do little (at present) or have done nothing (prior to 1936) to hinder the widespread and rapid growth of holding companies and related forms of intercorporate affiliation.

Save for the corporate excise tax period (1909 to February 1913, inclusive) corporate investments in the securities of Federal, State, and local governments have been continuously exempt from Federal tax.

CAPITAL-STOCK AND EXCESS-PROFITS TAXES

The Federal capital-stock tax is based on an evaluation of capital in terms of corporate earning power rather than in terms of the capital actually invested or tangible net worth. The present "excess-profits" tax is nothing more than a penalty tax on those corporations which guess badly in declaring their capital stock for tax purposes. Despite its name, the tax has nothing to do with "monopoly" profits.

The compound capital-stock excess-profits taxes discriminate markedly against corporate enterprises with fluctuating profits, including small corporations and corporations in particular industries the profits of which cannot be accurately forecast. The excess-profits tax is substantially nonexistent on most large corporations.

UNDISTRIBUTED-PROFITS TAX

The undistributed-profits tax, as enacted by Congress, was designed to (*a*) remove existing tax inequalities arising out of the nondistribution of corporate profits and the consequent avoidance of individual surtaxes and (*b*) reduce corporate savings and thus prevent circumvention of the capital market with respect to industrial expansion. The tax probably achieved these twin objectives to some extent, but, in so doing, entailed several undesirable consequences (the principal of which are cited in the following paragraph).

The undistributed-profits tax of 1936 tended to fall on small- and medium-sized corporations without adequate allowance for the length of the accounting period, the pressing debt structure of individual concerns, and the differential accessibility to the capital market.

By applying to all corporate income (including intercorporate dividends) except interest received on governmental obligations, the undistributed profits did operate somewhat to hinder holding companies and other forms of intercorporate affiliation.

The most profitable corporations tended to report higher undistributed-profits tax payments and, to this extent, the surtax tended to curb monopoly profits, except in the case of the largest corporations distributing most their profits since they had ready access to the capital market. The tax was hardly an attack on existing "monopolies," but, if retained, it probably would have constituted a partial check to potential "monopolies," the sheer growth of which from internal sources would have been made more difficult.

Under the revisions of the undistributed-profits tax by the 1938 Revenue Act, small enterprise (i. e., corporations with net income under $25,000) was completely exempted, special deductions for debt retirement were broadened, the carry-over of prior year's losses was introduced, and noncash distributions of corporate profits (i. e., consent dividends, etc.) were permitted on a larger scale. These improvements of the technical character of the tax were rendered ineffective by the substantive emasculation of the rate provision, which defeated the objectives of the tax. The repeal of the remaining stump of the undistributed-profits tax by the Revenue Act of 1939 essentially left the tax problem where it was before the enactment of the 1936 Revenue Act, except for the emotional connotation of the phrase "undistributed-profits tax."

PAY-ROLL TAXES

The social-security taxes on pay rolls fall relatively lightly on highly mechanized enterprises and industries and relatively heavily on enterprises and industries employing labor to a substantial extent. This differential arises out of the selection of pay rolls as the tax basis, which is only one among several cost factors.

Small enterprise is somewhat favored under the pay-roll tax through the omission from the tax base of the cost of all entrepreneurial labor.

As other cost taxes, the pay-roll tax is "regressive" in the sense that it constitutes a relatively larger share of business costs in the case of the less profitable enterprises than in the case of the more profitable group. The pay-roll tax is also "regressive" in the sense that it may, in whole, or in part, be shifted to prices.

OTHER TAXES

The major share of Federal exise taxes are imposed on liquor and tobacco industries. In other industries the course of such taxes has been very erratic, with a present tendency to diminish both in volume and in the variety of industries singled out for taxation. Such excises are of course "regressive" in the main part since they usually enter into prices.

General State sales taxes are presently imposed in 23 States, a decline of 4 States from the peak of 27 reached in 1937. Such taxes are probably most important to the retailer, since the producer and intermediaries are not usually subject to the tax. Such taxes are "regressive" in the sense that they must be paid by profitable and unprofitable enterprises, and also in the sense that, if shifted to price, they fall on the consumer, irrespective of his income.

The property tax and State corporate taxes are "regressive" in the senses that they are heavier (*a*) on smaller enterprise than large enterprise and (*b*) on less profitable corporations than on the highly profitable corporation.

These regressive patterns are only partially offset by income taxes in 32 States.

APPENDIX A.

WAR EXCESS-PROFITS TAXATION

The wartime excess-profits tax was designed to tax at steeply graduated rates the excess of net income over a presumed "normal return" on "invested capital", while the war-profits tax aimed at recouping on behalf of the Government exorbitant and costly charges for war supplies via taxation rather than through shrewd bargaining which may be very time-consuming (at a period when time was obviously of the "essence").[1] The concepts of "net income," "normal return," and "invested capital" obviously presented serious problems of interpretation and enforcement, although it may well be that these administrative difficulties have been exaggerated.[2]

In arriving at net income for excess profits tax purposes the taxpayer was allowed a special deduction for the amortization of "buildings, machinery, equipment, or other facilities (including vessels), constructed, erected, installed, or acquired, on or after April 6, 1917, for the production of articles contributing to the prosecution of the present war * * *" insofar as the same had been "borne by the taxpayer." [3] The amount of the cost to be amortized, it was provided by the regulations, was the "excess of the unextinguished or unrecovered cost of the property over its maximum value (either for sale or for use as part of the plant or equipment of a going business) under stable post-war conditions.[4]

The rate of "normal return" was flexibly defined under the 1917 act, ranging from 7 to 9 percent, in accordance with "the average amount of the annual net income of the trade or business during the pre-war period" (1911–13).[5] A more precise definition was given by the 1918 act which, rejecting the concept of pre-war standards, provided that all net income in excess of 8 percent of "invested capital" should be regarded as "excess profits" for tax purposes.

A more difficult problem, however, was the determination of "invested capital." The most relevant experience at the time was distinctly discouraging—State regulation of public utilities frequently

[1] Even prior to the entry of the United States into the World War on April 6, 1917, Congress had embarked upon a special program of war taxation of corporate profits. The rate of the corporate income tax of 1916 was doubled, raised from 1 to 2 percent and, applicable to the following year (1917), was again doubled, raised to 4 percent. The manufacturers of munitions were subjected under title II of the Revenue Act of 1916 to a special tax of 12½ percent "upon the entire net profits actually received or accrued for said year from the sale or disposition" of "gunpowder, explosives, cartridges, projectiles, firearms, submarines," etc. The yield of this tax was very disappointing, amounting to $42,000,000, largely as a result of an exceedingly liberal allowance (sec. 302 (f)) for the "amortization of the value of buildings and machinery, account being taken of the exceptional depreciation of special plants." See Regulation 39, arts. 20–21. Also see Commissioner of Internal Revenue, Report for 1917, p. 195. The Revenue Act of 1916 (title IV, sec. 407) also introduced a capital stock tax at the rate of "50 cents for each $1,000 of the capital actually invested in the transaction of its business." See Regulation 38.

[2] Supported by information obtained from Treasury sources.

[3] Sec. 214 (a) (9). Of course the amortization deduction should not include "any amount otherwise allowed * * * as a deduction in computing net income."

[4] Regulation 45, art. 183. See Regulation 62 (under the 1921 act), art. 84 for more precise definitions. Some available data on a small sample of large corporations indicates that the amount of amortization finally allowed was approximately one-tenthof taxable net income. The amortization provision was retained by the Revenue Act of 1921 (sec. 234 (a) (8)), and continued for "any taxable year ending before March 3, 1924 (if claim therefor was made at the time of filing return for the taxable year 1918, 1919, 1920, or 1921)."

[5] Sec. 203. For method of determining "normal return" for corporations without pre-war experience, see sec. 204 of the 1917 act and Regulation 41, arts. 22–23.

ran afoul of circular difficulties in defining value, with long drawn-out controversies in many courts. Yet the problem had to be faced. The initial statutory attempt was a deceptively simple definition of "invested capital" consisting of three parts: "(1) actual cash paid in, (2) the actual cash value of tangible property [6] paid in other than cash, for stocks and shares * * * and (3) paid in or earned surplus and undivided profits used or employed in the business * * *"[7] A proviso added that "invested capital" may also include (a) the actual cash value of patents and copyrights paid in for stock at not more than the par value thereof, (b) bona fide payments (in cash or tangible property) for goodwill, trade-marks, trade brands, and franchises or, if acquired prior to March 3, 1917, bona fide payments of the same in stock, not exceeding 20 percent of the total shares of stock.[8] "Invested capital" specifically did not include borrowed money or property or any assets the income of which was not subject to the excess-profits tax.[9]

The definition of "invested capital" was somewhat clarified by the Revenue Act of 1918, although the statutory phraseology may superficially appear more complex. To the three constituent parts of "invested capital" were added intangible property bona fide paid in for stock not exceeding (a) 25 percent of par value of total stock outstanding, (b) actual cash value of such property, or (c) par value of the stock issued, whichever is lower. This new clause superseded the vague "proviso" of the 1917 act anent specified types of intangible property and the strained administrative definition of "tangible" property. The new regulations under the 1918 act candidly pointed out that "invested capital" had no relationship to "present net worth of the assets" of the corporation but was rather based on "the capital actually paid into the corporation by the stockholders." [10]

The actual operation of the war excess-profits taxes for seven major industries is shown in table 1 hereof, for the 5-year period (1917–21) during which the tax was in existence.[11] The peak of the ratio of the excess-profits tax to net income in each industry was reached in 1918, the same year in which interindustry differences were greatest. Throughout the entire 5-year period the highest tax ratio was for the construction industry (47.8 percent) with manufacturing (37.8 percent) a close second, while the ratio was consistently lowest for public utilities (8.6 percent) and finance corporations (8.9 percent). The low ratio for public utilities is to be expected in view of their regulation by public authorities which, if effective, cannot tolerate excess profits, while the low rate for finance corporations reflects the low but steady rate of return on investment characteristic of that industry. Service corporations (15 percent) tended to fall in the lower group, while mining (25.1 percent) and trade (27.5 percent) fell in the higher group. The percent in brackets indicates the 1918 tax ratio for a given industry. Among the manufacturing industries the highest tax ratios appeared for textiles and metals—both industries characteristically playing a major part in the production of war

[6] By regulation "tangible property" was defined to include stocks, bonds, bills and accounts receivable, notes and other evidences of indebtedness, and leaseholds. Op. cit., art. 47.

[7] Sec. 207 (a).

[8] See arts. 53–65 of Regulation 41

[9] Sec. 207

[10] Regulations 45, art. 831.

[11] No data are available for manufacturing industries for 1917. The 1918 data do not permit a separation of the war-profits tax payments from the excess-profits tax payments; the importance of the former was largely confined to industries producing military supplies purchased by the Federal Government.

supplies. The ratios for the other manufacturing industries were fairly similar to one another, with chemicals high and printing low.

One of the fairly simple and safe methods of avoiding the war excess-profits tax was for the corporations to expand their expenditures for advertising, establishment of branch plants, renovations and repairs of existing plant and equipment (if not already charged off as depreciation), salary boosts for executives, and, allegedly, depressed prices designed to build goodwill. But, as has been carefully noted by one observer, these techniques of avoidance "were designed to postpone the yield of the business until the profits tax had been abolished, and would have lost their efficiency if the tax had been retained indefinitely at stable rates." [12]

Despite the large yield of the excess-profits taxes, the gradual resolution of the initial administrative problems, and the Presidential declaration of the desired permanency of the principle of excess-profits taxation [13] the Treasury and Congress grew increasingly critical. Carter Glass in his 1919 report as Secretary of the Treasury castigated the tax as follows:

> The Treasury's objections to the excess-profits tax even as a war expedient (in contradistinction to a war-profits tax) have been repeatedly voiced before the committees of the Congress. Still more objectionable is the operation of the excess-profits tax in peacetimes. It encourages wasteful expenditure, puts a premium on overcapitalization and a penalty on brains, energy, and enterprise, discourages new ventures, and confirms old ventures in their monopolies. In many instances it acts as a consumption tax, is added to the cost of production upon which profits are figured in determining prices, and has been, and will, so long as it is maintained upon the statute books, continue to be, a material factor in the increased cost of living.[14]

His successor, Secretary Houston, also advocated the repeal of the tax, urging in its stead a flat tax on "profits in excess of the distributed earnings" of corporations. His criticisms may be summarized in the following quotation:

> The reasons for the repeal of the excess-profits tax should be convincing even to those who on grounds of theory or general political philosophy are in favor of taxes of this nature. The tax does not attain in practice the theoretical end at which it aims. It discriminates against conservatively financed corporations and in favor of those whose capitalization is exaggerated; indeed, many overcapitalized corporations escape with unduly small contributions. It is exceedingly complex in its application and difficult of administration, despite the fact that it is limited to one class of business concerns—corporations. Moreover, it is rapidly losing its productivity. The invested capital of the average corporation, earning profits high enough to subject it to the excess-profits tax, is now estimated to be increasing at the approximate rate of 12 percent a year, while the income of the average corporation is almost certainly declining at as great a rate. Both movements cut into the productivity of the tax. If the present changes in capital and income continue for some time in the future, as now seems probable, a large reduction may be expected in the yield of the excess-profits tax. For the present fiscal year, the profits tax, with collections of back taxes, is estimated to yield about \$1,250,000,000, and for the fiscal year 1922 about \$800,000,000, as against an estimated yield for the fiscal year 1920 of slightly over \$2,000,000,000.[15]

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[12] R. M. Boeckel, Taxation of Excess Profits, Editorial Research Reports (1933), II: 73. For a critical review of the role of taxation in controlling wartime profits, see the report of the Special Committee on Investigation of the Munitions Industry on Wartime Taxation and Price Control (74th Cong., 1st sess., Report No. 944, pt. 2).

[13] This declaration was made as late as May 20, 1919, in his first message to the special session of the 66th Congress. Conceding that the "excess-profits tax need not long be maintained at the rates which were necessary while the enormous expenses of the war had to be borne," the President urged that the tax "should be made the basis of a permanent system which will reach undue profits without discouraging the enterprise and activity of our businessmen."

[14] Pp. 23–24.

[15] Pp. 38–39.

On the other hand, David Friday wrote in his study of profits, wages, and prices:

> If we are seeking taxes which will leave the income of the masses undisturbed, and at the same time discourage industry and enterprise least, our present excess-profits taxes are founded upon the correct principle. Tax only him who receives more income than is necessary to call forth the productive service which he renders; he will not be discouraged. Do not levy heavy taxes upon the property or income of those who are already laboring under financial difficulties because of insufficient earnings; discouragement in that quarter is easy. Modern industry, with its fluctuating markets, its ever-changing technique, its unstable price level, and its sensitiveness to war and rumors of war is sufficiently risky without increasing that risk by subjecting the businessman to taxes when his income is already inadequate.[16]

Unfortunately sufficient data are not at hand to reach a considered judgment. For example, the Treasury figures on collections do not segregate any of the war-income taxes on corporations and natural persons but lump them in a single figure for the entire war period. There are no figures on invested capital for 1918—although there are such figures for 1917 and 1919–21. Refunds are alleged to have been very large, but precise data are again lacking.[17]

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[16] P. 190.

[17] See footnote 2.

TABLE 1.—*Federal wartime taxation of corporate profits, 1917–21*

	A. War-profits and excess-profits taxes as percent of net income					B. Income tax as percent of net income					C. Total taxes as percent of net income					D. Net income as percent of invested capital [1]		
	1917	1918	1919	1920	1921	1917	1918	1919	1920	1921	1917	1918	1919	1920	1921	1919	1920	1921
Manufacturing (including miscellaneous)	18.0	37.8	18.0	15.0	13.6	4.6	7.3	8.0	8.6	8.5	22.6	45.1	26.0	23.6	22.1	19.9	14.6	13.0
Food, beverages, tobacco	[2]	31.2	16.3	14.2	13.5	[2]	8.0	8.0	8.2	8.5	[2]	39.2	24.3	22.4	22.0	24.2	12.9	16.3
Textiles	[2]	45.0	22.2	18.8	13.8	[2]	6.5	7.7	7.8	8.7	[2]	51.5	29.9	26.6	22.5	27.9	17.8	17.5
Leather	[2]	27.3	23.3	16.4	13.2	[2]	8.5	7.5	8.0	8.5	[2]	35.8	30.8	24.4	21.7	30.3	14.7	16.8
Rubber	[2]	29.3	14.9	5.4	10.4	[2]	8.5	8.4	8.1	8.8	[2]	37.8	23.3	14.1	19.2	18.8	6.6	15.6
Lumber	[2]	23.5	15.4	16.6	10.6	[2]	8.5	3.1	8.0	8.7	[2]	32.0	23.5	24.6	19.3	17.0	17.9	13.5
Paper	[2]	29.7	14.9	22.3	10.7	[2]	8.1	8.3	7.6	8.6	[2]	37.8	23.2	29.9	19.4	17.4	28.7	13.5
Printing	[2]	18.0	16.5	17.9	17.1	[2]	8.4	8.2	8.1	6.9	[2]	26.4	24.7	26.0	24.0	19.8	22.1	20.8
Chemicals	[2]	33.0	16.0	13.7	13.7	[2]	7.8	8.4	8.6	8.9	[2]	40.8	24.4	22.3	22.6	16.0	16.0	17.5
Stone	[2]	30.8	14.6	16.6	11.5	[2]	8.0	8.2	8.3	8.7	[2]	38.8	22.8	24.9	20.2	14.3	17.0	14.5
Metals	[2]	42.1	17.6	13.5	14.8	[2]	6.8	8.0	8.9	8.3	[2]	48.9	25.6	22.4	23.1	17.7	11.9	8.2
Mining (including quarrying)	17.8	25.1	8.6	16.8	11.2	4.6	8.7	8.8	8.1	8.4	22.4	33.8	17.4	24.9	19.6	10.2	14.4	6.2
Coal	[2]	35.4	9.3	22.9	11.0	[2]	7.3	8.5	7.4	8.4	[2]	42.7	17.8	30.3	19.4	8.4	26.0	9.8
Metal	[2]	14.8	3.7	8.9	10.4	[2]	10.0	8.0	8.2	8.5	[2]	24.8	12.7	17.1	18.9	16.3	4.8	6.0
Gas and oil	[2]	25.2	10.7	10.9	11.1	[2]	8.8	8.8	8.7	8.8	[2]	34.0	19.5	19.6	19.9	12.5	12.3	3.6
Trade	17.3	27.5	17.8	13.6	11.4	4.6	8.1	7.7	7.6	8.5	21.9	35.6	25.5	21.2	19.9	19.9	15.7	15.8
Service	10.0	15.0	12.8	14.4	14.0	5.0	9.2	7.1	7.5	8.1	15.0	24.2	19.9	21.9	22.1	13.6	16.7	18.2
Construction	19.5	47.8	36.1	21.9	14.9	4.2	6.3	5.7	7.5	9.0	23.7	54.1	41.8	29.4	23.9	25.6	17.9	16.1
Public utilities (including miscellaneous	4.6	8.6	4.4	2.8	5.1	5.2	10.7	9.2	9.4	9.3	9.8	19.3	13.6	12.2	14.4	6.4	6.3	7.8
Steam railroads	[2]	.9	.9	.5	1.5	[2]	10.7	9.6	9.4	9.7	[2]	12.6	10.5	9.9	11.2	4.8	4.9	6.1
Electric railroads	[2]	1.5	1.6	1.5	4.5	[2]	11.5	9.6	9.7	9.3	[2]	13.0	11.2	11.2	13.8	4.1	4.9	5.3
Ocean and coastal	[2]	52.2	20.6	11.3	4.9	[2]	5.4	8.2	8.3	9.3	[2]	57.6	28.8	19.6	14.2	23.5	12.2	7.5
Light and power	[2]	2.1	2.5	2.1	4.8	[2]	11.0	9.3	9.1	9.4	[2]	13.1	11.8	12.2	14.2	6.5	6.2	10.3
Gas	[2]	3.1	3.6	4.0	7.6	[2]	11.2	8.0	9.2	9.2	[2]	14.3	12.6	13.2	16.8	6.1	5.8	11.4
Telephone and telegraph	[2]	1.8	1.3	1.4	2.1	[2]	11.2	9.2	9.4	9.6	[2]	13.0	10.5	10.8	11.7	7.0	7.3	8.1
Finance (including miscellaneous)	4.3	8.9	6.4	5.7	5.2	5.0	9.0	6.6	7.3	8.5	9.3	17.9	13.0	13.0	13.7	7.9	6.3	9.0
National banks	[2]	9.8	7.4	6.9	4.3	[2]	7.6	6.3	7.3	7.8	[2]	17.4	13.7	14.2	12.1	8.1	11.6	8.9
State banks	[2]	3.6	5.3	5.6	5.4	[2]	6.8	5.6	6.6	7.5	[2]	12.4	10.9	12.2	12.9	13.9	11.3	10.5
Life insurance	[2]	11.6	4.7	.4	7.9	[2]	6.8	5.2	5.3	7.3	[2]	18.4	9.9	5.7	15.2	1.8	1.0	11.2
Casualty insurance	[2]	7.0	6.2	2.0	3.4	[2]	10.2	8.5	8.1	8.4	[2]	17.2	14.7	10.1	11.8	9.6	5.4	7.0
All corporations (including agricultural and miscellaneous)	15.3	30.0	15.3	12.5	10.9	4.7	7.8	7.9	8.5	8.6	20.0	37.8	23.2	21.0	19.5	14.1	6.3	11.1

[1] Unavailable for 1917 (except on individual company basis) and 1918.
[2] Unavailable.

Source: Statistics of Income for respective years.

APPENDIX B

FEDERAL CAPITAL STOCK AND EXCESS-PROFITS TAXES

1. *Derivation of the formula for calculating the interlocking effective rates of the capital stock and excess-profits taxes.*[1]—The problem: To find the total tax payments of the capital-stock tax and the excess-profits tax, measured as percentages of taxable net income, under alternative declarations of capital (as times net income).

I. Definitions:

C=declared capital (stated in dollars)
CT=capital tax (stated as a decimal)
E=excess-profits tax (stated as a decimal)
N=net income (stated in dollars)
TT=total tax (percentage of net income)

Since, by law, no excess-profits tax is payable whenever N is equal to or less than $0.10C$, and since the rate of the excess-profits tax shifts as the relationship between N and C changes, it is advisable to work with three different formulae, each applicable to one of the three possible assumptions.

II. Formulae to be used in computing TT:

A. When N is less than or equal to $0.10C$, no excess-profits tax is payable (case I).

$$TT_1 = CT = 0.001C \tag{1}$$

B. When N is greater than $0.10C$ but equal to or less than $0.15C$

$$TT_2 = CT + E_2 \text{ [2]}$$

where

$$E_2 = 0.06\,[N - 0.10C]$$
$$\therefore TT_2 = 0.001C + 0.06\,[N - 0.10C]$$
$$= 0.06N - 0.005C \tag{2}$$

C. When N is greater than $0.15C$

$$TT_3 = CT + E_3 \text{ where}$$
$$E_3 = 0.06\,[(N - 0.10C) - (N - 0.15C)] + 0.12\,(N - 0.15C)$$
$$= 0.06\,(0.05)C + 0.12(N - 0.15C)$$
$$= 0.12N - 0.015C$$
$$\therefore TT_3 = 0.001C + 0.12N - 0.015C$$
$$= 0.12N - 0.014C \tag{3}$$

III. Relation between C and TT for a given value of N (application of the formulae): Assume that the declared capital of a corporation is X times its net income, and then compute the total tax (as a percentage of net income) associated with values of X ranging from 0 to 20.

[1] By Orvis A. Schmidt, Treasury Department.

[2] The subscript 2 is here applied to E merely to keep the subscripts the same throughtout the equation. There is thus no E_1.

Formula (3) must be applied while

$$N > 0.15C, \text{ or while}$$
$$X < 6.7$$

Formula (2) must be applied while

$$0.10C < N < 0.15C \text{ or while}$$
$$10 > X > 6.7$$

Formula (1) must be applied when

$$X > 10.$$

Applying formula (3):

$$\begin{aligned} TT_3 &= 0.12N - 0.014\,(XN) \\ X=0 & \quad\quad = 0.120N \\ 2 & \quad 0.12N - .028N = 0.092N \\ 4 & \quad 0.12N - .056N = 0.064N \\ 6 & \quad 0.12N - .084N = 0.036N \end{aligned}$$

Applying formula (2):

$$\begin{aligned} TT_2 &= 0.06N - 0.005(XN) \\ X=8 & \quad 0.06N - 0.040N = 0.020N \end{aligned}$$

Applying formula (1) thereafter to any value of X:

$$\begin{aligned} TT_1 &= 0.001(XN) \\ X = 10 &= 0.010N \\ 12 &= 0.012N \\ 14 &= 0.014N \\ 16 &= 0.016N \\ 18 &= 0.018N \\ 20 &= 0.020N \end{aligned}$$

Summarizing the results:

	Declared capital is X times income where $X=$	Total tax will be (as a percent of income)
	0	12.0
	2	9.2
	4	6.4
TT_3	6	3.6
TT_2	8	2.0
	10	1.0
TT_1	12	1.2
	14	1.4
	16	1.6
	18	1.8
	20	2.0

2. *Method of estimating the capital stock tax from Statistics of Income data, 1933–37.*—The estimate started with the amount of net income reported for corporations of varying size and capitalized it at 12.5 percent for the years 1933–35 and at 10 percent for 1936–37. The resulting figure [3] was the ideal capitalization that should have been declared in order to minimize taxes. This figure was deficient in two respects—(a) corporations underdeclaring their capitalization and (b) corporations overdeclaring their capitalization. The first

[3] Tabulated in column 1 of appendix B, table 1, p. 285.

deficiency was corrected by capitalizing the amount of the excess-profits tax reported for corporations of varying size—that is, the amount of the excess-profits tax was divided by 6 for 1933–35 and 9 for 1936–37 (the midpoint between 6 percent and 12 percent) and multiplied by 100—which have the amount of "excess profits." This figure was in turn multiplied by 12.5 in 1933–35 and by 10 in 1936–37, giving the amount by which capital was undeclared (tabulated in column 2 of appendix B, table 1). Deducting column 2 from column 1 gives the estimated minimum capitalization (column 3) from which the magnitude of the capital-stock tax (column 4) was calculated at the rate of $1 per $1,000 of declared capitalization. The relative magnitude of the capital stock tax is measured as a percent of net income (column 5).

This estimate is deficient only in the respect that it does not allow for overdeclaration of capital. The chances are that the smaller corporations and corporations engaged in industries characterized by widely fluctuating profits will more likely err in this respect, and that the larger corporations are not apt to be far off in their forecasting of profits. In view of the wide range of error permissible in overdeclaring capital (shown in text diagram IV–1) without serious tax penalties, it is difficult to believe that this error in the estimating technique introduces any size bias into the estimated capital-stock tax figures, except possibly a slight bias in favor of the larger corporations.

TABLE 1.—*Calculated capital-stock tax on corporations of varying size, 1933–37*

[In millions]

Size classes (assets in thousands)	1 Ideal capitalization	2 Deficient capital declared	3 Estimated capital declared	4 Estimated capital-stock tax	5 Capital-stock tax as percent of net income
1933					
Under $50	$508	$90	$418	0.4	0.7
$50 to $100	506	76	430	.4	.7
$100 to $250	1,136	145	991	1.0	.7
$250 to $500	1,236	134	1,102	1.1	.7
$500 to $1,000	1,525	155	1,370	1.4	.7
$1,000 to $5,000	3,810	258	3,552	3.6	.7
$5,000 to $10,000	1,863	62	1,801	1.8	.8
$10,000 to $50,000	4,452	77	4,375	4.4	.8
Over $50,000	8,470	98	8,372	8.4	.8
1934					
Under $50	873	130	743	.7	.7
$50 to $100	879	94	785	.8	.8
$100 to $250	1,756	170	1,586	1.6	.7
$250 to $500	1,842	154	1,688	1.7	.7
$500 to $1,000	2,238	159	2,079	2.1	.7
$1,000 to $5,000	5,824	253	5,571	5.6	.8
$5,000 to $10,000	2,898	84	2,814	2.8	.8
$10,000 to $50,000	6,830	102	6,728	6.7	.8
Over $50,000	10,570	75	10,495	10.5	.8
1935					
Under $50	918	180	738	.7	.7
$50 to $100	952	176	776	.8	.7
$100 to $250	2,138	332	1,706	1.7	.6
$250 to $500	2,250	340	1,910	1.9	.7
$500 to $1,000	2,722	372	2,350	2.3	.7
$1,000 to $5,000	7,320	880	6,440	6.4	.7
$5,000 to $10,000	3,290	191	3,199	3.2	.8
$10,000 to $50,000	8,520	549	7,971	8.0	.7
Over $50,000	11,910	909	11,009	11.0	.7

TABLE 1.—*Calculated capital-stock tax on corporations of varying size, 1933–37*—Continued

[In millions]

Size classes (assets in thousands)	1 Ideal capitalization	2 Deficient capital declared	3 Estimated capital declared	4 Estimated capital-stock tax	5 Capital-stock tax as percent of net income
1936					
Under $50	1,496	222	1,274	1.3	.9
$50 to $100	1,554	186	1,368	1.4	.9
$100 to $250	3,543	319	3,224	3.2	.9
$250 to $500	3,790	263	3,587	3.6	1.0
$500 to $1,000	4,611	267	4,344	4.3	.9
$1,000 to $5,000	12,671	560	12,111	12.1	1.0
$5,000 to $10,000	5,893	183	5,710	5.7	1.0
$10,000 to $50,000	13,980	157	13,823	13.8	1.0
$50,000 to $100,000	5,925	52	5,873	5.9	1.0
Over $100,000	17,092	74	17,018	17.0	1.0
1937					
Under $50	1,414	271	1,143	1.1	.7
$50 to $100	1,434	232	1,202	1.2	.8
$100 to $250	3,311	452	2,859	2.9	.8
$250 to $500	3,534	418	3,116	3.1	.8
$500 to $1,000	4,198	373	3,825	3.8	.9
$1,000 to $5,000	12,242	1,075	11,167	11.2	1.0
$5,000 to $10,000	5,377	372	5,005	5.0	.9
$10,000 to $50,000	14,795	810	13,985	14.0	.9
$50,000 to $100,000	6,387	141	6,246	6.2	.9
Over $100,000	20,518	376	20,142	20.1	.9

Source: Computed from Statistics of Income for respective years.

APPENDIX C

OLIPHANT'S STATEMENT ON HISTORY OF UNDISTRIBUTED PROFITS PROBLEM

Brief History of Treatment of Business Income and of Attempts to Prevent the Escape of Taxes Through the Retention of Corporation Earnings (statement submitted by Herman Oliphant, general counsel of the Treasury Department, to the House Ways and Means Committee).

An act of Congress passed June 30, 1864, provided that the gains and profits of corporations should be included in the annual gains, profits, or income of any person entitled to the same, whether divided or otherwise.

With the advent of the modern income taxes in 1913, a provision to prevent the evasion of surtaxes through the use of corporations was introduced in the 1913 act, and was continued without substantial change in the Revenue Acts of 1916 and 1918. These acts provided for an addition to the dividend income of the stockholders of a corporation which, for the purpose of evading surtaxes, accumulated profits beyond the reasonable needs of the business, and the taxes of the stockholders were thus determined as if distribution had actually been made.

Shortly before and while the Revenue Act of 1921 was under consideration, the problem received much attention in Congress, by the Treasury, and by representatives of organized business. At that time the repeal of the excess-profits tax was being considered and the opinion was widely held that some measure should be adopted to maintain the substantial balance which had existed during the period of the war taxes when individual and corporate business enterprises alike were taxed at high rates.

Secretary Houston in his annual report for the year 1920 recommended substituting for the then existing graduated rates, a flat tax on profits in excess of distributed earnings. The object of this proposal, he said, was "to establish, so far as possible, an exact equivalence between the taxation of corporation stockholders and other taxpayers."

So eminent an authority as the late Dr. T. S. Adams, former chairman of the Advisory Tax Board in the Bureau of Internal Revenue and for many years a Treasury adviser, as early as 1918 went on record in favor of the taxation of undivided profits at the rates which would apply if such profits were distributed to the shareholders. "Fiscal necessity—and, personally, I believe, logic as well," said Dr. Adams, "requires the taxation of all profits, whether reinvested or not." The same thought was behind his recommendation in 1920 to the second national industrial tax conference that the corporation income tax be raised from 10 to 16 percent, and his proposal in substance became a part of the majority report of the conference board's tax committee.

Before the Senate Committee on Finance in the first session of the Sixty-seventh Congress, the National Association of Credit Men proposed that there should be no tax upon corporation income that is distributed, and opposed the flat corporation tax on the ground that it discriminated against small shareholders and violated the principle of taxing the individual in accordance with ability to pay. A similar proposal was made to the same committee by Mr. Frank H. Seidman, a leading accountant and tax expert of New York, Chicago, and Grand Rapids, and Senator Jones of New Mexico introduced an amendment to the 1921 tax bill substantially along the lines recommended by the Association of Retail Credit Men. As finally enacted, the Revenue Act of 1921 contained only a flat tax on corporation income at the low rate of 10 percent for the year 1921 and 12½ percent for succeeding years, while the maximum individual surtax continued through 1921 at 65 percent and thereafter at 50 percent.

However, Congress recognized that the importance of the problem called for some kind of legislative action. The result was section 220 of the Revenue Act

of 1921, which imposed a surtax of 25 percent on any corporation "formed" or availed of for the purpose of preventing the imposition of the surtax upon its shareholders. In 1924 the rate of tax was increased to 50 percent, which rate was continued in the law until the Revenue Act of 1934. Section 102 of the Revenue Act of 1934 is substantially the same as the earlier sections, except that the rate of tax is reduced to 25 percent and the tax is levied on net income less dividends and taxes paid out rather than on the entire net income.

In 1926–27 the Joint Committee on Internal Revenue Taxation made a careful study of the problem from the point of view of our experience and that in Great Britain, but failed to recommend a tax on undivided profits because of the fear that it might cause "unwise distributions and prevent the accumulation of a reasonable and proper surplus." It recommended instead the granting of a deduction to encourage distribution of unneeded surplus. The committee, however, apparently was influenced by the fact that at that time the maximum individual surtax rate was only 20 percent, while the corporation rate was 13½ percent.

The measures adopted by Congress to prevent evasion of the surtaxes proved to be difficult to administer and were generally ineffective. This led Congress to the 1934 act to impose a straight tax on personal holding companies, which were among the worst offenders, in which no proof of intention to evade was required. These companies are now taxed on their undistributed earnings in excess of 20 percent at rates running up to 60 percent on amounts in excess of $1,000,000.

In the 1932 act the surtaxes were increased to 35 percent, while the flat corporation rate was raised only to 13¾ percent. This disparity between the individual and corporation rates brought into sharp relief the fundamental inequity of our treatment of individual business enterprises, as well as the unfairness to the small stockholder, and early in the Roosevelt administration intensive studies were undertaken by the Treasury, whose experts, with the cooperation of outside consultants, considered the problem from every angle. While the unusual demands for revenue may have been the immediate reason for the President's proposal, the problem itself is as old as the income taxes and has had the consideration of some of the ablest students of taxation. House Ways and Means Committee, Hearings on the 1936 Revenue Act, pp. 658–659.

APPENDIX D

TAX EXPERIENCE OF 312 IDENTICAL MANUFACTURING CORPORATIONS, 1934–37

PART I.—*In thousands of dollars*

	1934	1935	1936	1937	Percent change 1934–37
Sales	$5, 820, 521	$6, 888, 226	$8, 281, 555	$9, 672, 339	66. 18
Gross profits	1, 910, 998	2, 244, 555	2, 736, 239	3, 147, 285	64. 69
Net before interest	465, 761	708, 379	1, 031, 449	1, 088, 927	133. 80
Federal income taxes	56, 363	73, 148	129, 469	148, 589	163. 63
Undistributed profits tax			13, 359	20, 009	
Capital-stock tax	9, 520	11, 413	14, 125	14, 072	47. 82
Federal excises	247, 038	245, 938	261, 617	288, 549	16. 80
Pay-roll taxes			19, 608	67, 695	
State income taxes	4, 923	8, 012	13, 426	16, 470	234. 55
State sales taxes	101, 928	112, 316	140, 198	139, 826	37. 18
Property taxes	64, 909	64, 640	66, 418	69, 564	7. 17
State corporation taxes	4, 290	6, 704	8, 537	10, 612	147. 37
Total taxes	488, 971	522, 171	666, 757	775, 386	58. 57

PART II.—*Taxes as percent of sales*

ASSETS UNDER $1,000,000

	1934	1935	1936	1937
Federal income taxes	0. 73	0. 68	1. 30	0. 80
Undistributed-profits tax			. 15	. 09
Capital-stock tax	. 10	. 11	. 14	. 11
Federal excises	6. 26	6. 04	5. 61	4. 85
Pay-roll taxes			. 24	. 67
State income taxes	. 05	. 06	. 14	. 09
State sales taxes	. 87	. 73	. 69	. 66
Property taxes	. 57	. 47	. 41	. 36
State corporation taxes	. 11	. 12	. 11	. 08
Total taxes	8. 69	8. 21	8. 79	7. 71

ASSETS $1,000,000 TO $5,000,000

	1934	1935	1936	1937
Federal income taxes	1. 10	1. 33	1. 63	1. 48
Undistributed-profits tax			. 30	. 24
Capital-stock tax	. 14	. 14	. 17	. 14
Federal excises	2. 73	2. 48	2. 21	2. 16
Pay-roll taxes			. 31	. 84
State income taxes	. 08	. 12	. 14	. 16
State sales taxes	. 32	. 23	. 28	. 27
Property taxes	. 81	. 66	. 58	. 57
State corporation taxes	. 08	. 08	. 07	. 07
Total taxes	5. 26	5. 04	5. 69	5. 93

PART II.—*Taxes as percent of sales*—Continued

ASSETS $5,000,000 TO $10,000,000

	1934	1935	1936	1937
Federal income taxes	0.65	0.84	1.28	1.21
Undistributed-profits tax	------	------	.26	.23
Capital-stock tax	.12	.13	.14	.12
Federal excises	.47	1.04	1.06	.72
Pay-roll taxes	------	------	.33	.93
State income taxes	.04	.07	.10	.11
State sales taxes	.06	.09	.07	.06
Property taxes	.95	.72	.62	.60
State corporation taxes	.09	.09	.11	.09
Total taxes	2.38	2.98	3.97	4.07

ASSETS $10,000,000 TO $50,000,000

	1934	1935	1936	1937
Federal income taxes	1.12	1.15	1.61	1.45
Undistributed-profits tax	------	------	.15	.16
Capital-stock tax	.16	.16	.17	.15
Federal excises	3.00	1.57	1.01	1.14
Pay-roll taxes	------	------	.26	.80
State income taxes	.08	.12	.19	.18
State sales tax	.04	.03	.04	.05
Property taxes	1.01	.88	.73	.68
State corporation taxes	.07	.11	.15	.13
Total taxes	5.48	4.02	4.31	4.74

ASSETS $50,000,000 TO $200,000,000

	1934	1935	1936	1937
Federal income taxes	1.10	1.07	1.70	1.47
Undistributed-profits tax	------	------	.13	.17
Capital-stock tax	.13	.16	.14	.13
Federal excises	2.57	2.57	2.62	2.70
Pay-roll taxes	------	------	.22	.65
State income taxes	.08	.12	.16	.16
State sales tax	.04	.04	.45	.06
Property taxes	.95	.82	.70	.61
State corporation taxes	.04	.05	.04	.06
Total taxes	4.91	4.83	6.16	6.01

ASSETS OVER $200,000,000

	1934	1935	1936	1937
Federal income taxes	0.79	1.01	1.43	1.71
Undistributed-profits tax	------	------	.16	.26
Capital-stock tax	.20	.18	.20	.17
Federal excises	7.11	6.23	5.36	4.66
Pay-roll taxes	------	------	.22	.65
State income taxes	.09	.11	.16	.19
State sales tax	4.67	4.54	4.31	3.88
Property taxes	1.38	1.16	1.00	.89
State corporation taxes	.10	.14	.14	.15
Total taxes	14.34	13.37	12.98	12.56

TOTAL

	1934	1935	1936	1937
Federal income taxes	0.97	1.06	1.56	1.54
Undistributed-profits tax	------	------	.16	.21
Capital-stock tax	.16	.17	.17	.15
Federal excises	4.24	3.57	3.16	2.98
Pay-roll taxes	------	------	.24	.70
State income taxes	.08	.12	.16	.17
State sales tax	1.75	1.63	1.69	1.45
Property taxes	1.12	.94	.80	.72
State corporation taxes	.07	.10	.10	.11
Total taxes	8.39	7.59	8.04	8.03

APPENDIX E

SOURCES AND METHODOLOGY

SECTION I. BUREAU OF INTERNAL REVENUE DATA

1. *The universe studied.*—The size and industrial data on the operation of Federal taxes on corporate income for the period 1926–37 have been computed from the published Statistics of Income and unpublished tables of the Sourcebook of the statistical section of the Bureau of Internal Revenue. Although these Treasury compilations are based on returns from all existing corporations in the United States, a part report no income data because they are inactive and others fail to include balance sheets (not legally required in their income-tax returns). The first group of corporations has been excluded from the study because it includes more legal frames, while the second has been excluded from all size analyses (but not from the detailed industrial comparisons) because of the nature of the size classification which is based on assets (a balance sheet item). The second group of excluded corporations is negligible in financial significance, their receipts, net income, and Federal tax payments being approximately 5 percent or less of the respective totals for all corporations.

This study has been largely limited to corporations paying Federal corporate income taxes. The study is still based on a universe and not a sample, although it has shrunk to a universe of all net-income corporations submitting balance sheets (table I).

TABLE I.—*Number of corporations filing income-tax returns*

Years	Total filing	Inactive	Lacking balance sheets	Filing balance sheets: No net income	Filing balance sheets: Net income	Filing balance sheets: Total
1931	516, 404	56, 700	78, 616	237, 893	143, 195	381, 088
1932	508, 636	56, 752	39, 863	318, 730	73, 291	392, 021
1933	504, 080	57, 238	58, 278	287, 623	100, 941	388, 564
1934	528, 898	59, 094	59, 178	275, 662	134, 964	410, 626
1935	533, 631	56, 518	61, 908	262, 130	153, 075	415, 205
1936	530, 779	51, 922	63, 203	227, 101	188, 553	415, 654
1937	529, 097	51, 259	60, 936	237, 967	178, 935	416, 902

Source: Statistics of Income for respective years.

2. *The period covered and comparability from year to year.*—The size analysis is limited to the 7 years of 1931, 1932, 1933, 1934, 1935, 1936, and 1937—the only years for which size tabulations by assets are now (June 1940) available. Previous to 1931 some data are available by size of taxable income or deficits, but net income is such a shifting criterion of size as to make a structural study of taxation meaningless. The 3 years of 1931, 1932, and 1933 are not strictly comparable with

the succeeding 3 years of 1934, 1935, and 1936, because of the abolition of the consolidated returns device (except for railroads) by the 1934 Revenue Act.[1] Likewise, the period 1926–27 is not entirely comparable with the 1928–31 period (in the industrial analysis) because of the tightening of the affiliation requirements for consolidated returns under the 1928 Revenue Act. It is unfortunately not possible to show the precise effects of the abolition of the consolidated returns device upon the size composition of different industries, since no size data of this character are available. By the nature of the case—the requirement of separate returns for each corporation instead of a consolidated return for a group of affiliated companies—the change must have been rather significant. The number of corporations in the large size groups where the consolidated parent subsidiaries were classified presumably decreased, while the number of corporations in the small and medium-sized groups where the separated subsidiaries are classifiable presumably increased. This reduction in the large-size groups may have been partially offset by the addition to the unconsolidated balance sheet of the parent of such new items as invested securities (i. e., issued by subsidiaries) that has previously been represented in the consolidated balance sheet by the physical assets of subsidiaries.

3. *Validity of the data.*—These data cannot presume to greater validity than that which may be ascribed to the source, Statistics of Income and the unpublished Sourcebook of the statistical section of the Bureau of Internal Revenue, both of which are equally valid. The Sourcebook serves primarily to furnish additional balance sheet, income, and tax items (*a*) by major industrial groups crossed by size classes and (*b*) by more detailed industrial groups (without crossing by size classes). Since Statistics of Income are largely compiled from unaudited returns, changes made after audit (which may stretch over several years and, in a few cases, decades), are accordingly not reflected in the statistics. The items most susceptible to revision are naturally the amount of tax liability, and income and deduction items upon which the former is based. These revisions may be upward or downward. No adjustments for auditing have been found possible and the figures have therefore been accepted at their face value.

The item on taxes claimed as deductions appears to be very unsatisfactory in certain industries characterized by heavy Federal or State taxes on sales or gross production—namely, beverages, tobacco, rubber, petroleum (and therefore chemicals with which petroleum was tabulated for the size series before 1936). Under the regulations of the Bureau of Internal Revenue, taxes paid by corporations to a governmental agency (except special assessments), during the year covered by the income-tax returns, may be claimed as deductions in three ways—as (*a*) "taxes paid"; (*b*) part of "cost of goods sold"; or (*c*) part of "cost of operations." If the corporation claims the deduction in either of the two latter ways, it is not possible on the basis of the present statistics to separate it from cost of materials, wages, etc., and consequently the figures on "taxes paid" remain incomplete.

[1] For specific changes in the industrial classification of identical corporations in 1933 and 1934 resulting from the abolition of the consolidated returns see Statistics of Income for 1934, pt. II, pp. 25–27.

The major changes in industrial classifications have fortunately been in an expanding direction, so that items for later years can usually be converted into comparable items for earlier years; this process, of course, cannot be reversed. Insofar as the size analysis is concerned, such changed in industrial classifications are relatively unimportant. Statistics of Income included beverages with food for 1931 and 1932 but thereafter kept them separate. Taking into account the fact that 1933 was not comparable with succeeding years because of the change in the consolidated returns device and that the eighteenth amendment had just been repealed, it was decided to add beverages to food for that year in order to make it comparable with data for 1932 and 1931. From 1934 onward, however, food and beverages have been kept separate. In the 1936–37 statistics clothing was separated from textiles, petroleum from chemicals, and motor vehicles from metals. In the case of industrial comparison, however, considerable caution is necessary in interpreting the results, since practically every year witnesses changes in the definition of industrial categories and in the industrial classification of individual firms.

SECTION II. DUN & BRADSTREET TAX DATA

Dun & Bradstreet early in 1939 sent out a questionnaire attached to all manufacturing, retailing, and wholesaling firms in the country, asking for the dollar amount of their sales and various types of taxes paid in 1938.. These returns were partially analyzed in the April, June, and August issues of Dun's Review. Dun & Bradstreet graciously made the tax work sheets available to the Department of Commerce and the Temporary National Economic Committee.

SECTION III. DEPARTMENT OF COMMERCE TAX SURVEY OF MANUFACTURING AND TRADE CORPORATIONS REGISTERED UNDER THE SECURITIES ACT OF 1934 [2]

In September 1939 the Department of Commerce sent out a questionnaire (a copy of which is attached hereto) to all manufacturing and trade companies which, as of June 30, 1939, had securities fully listed on registered securities exchanges. The list of companies was supplied by the Securities and Exchange Commission and is identical with the firms appearing in the Commission's Survey of American Listed Corporations.

The companies were asked to report their taxes for the last 5 years on the same basis as that used in their annual report on Form 10–K to the Securities and Exchange Commission. Most of the corporations filed the tax questionnaire on a consolidated basis, comparable with other data filed with the Securities and Exchange Commission. These returns are as a whole not comparable to the type of returns given in Statistics of Income, which have been on an unconsolidated basis since 1934. Taxes reported included only such taxes as were paid directly to a governmental body, even though the firm might be billed for other taxes by a seller. The classification of taxes is apparent from the attached questionnaire. Some companies reported taxes as estimated for the year in question while others reported actual payments for the year. Others gave the payments as made and then the adjustments that subsequently took place.

[2] Primarily prepared by John Copeland.

According to the instructions, the amount of taxes should coincide with the sum of "the taxes classed as (1) operating expenses and (2) charges on net income" in the annual report on Form 10–K to the Securities and Exchange Commission. If they did not, the company was requested to give a reconciliation. For most cases, taxes did not agree with those listed for the firms in the Survey of American Listed Corporations, and some returns gave no reconciliation. The greatest number of discrepancies arose in the Federal income-tax item because the Securities and Exchange Commission asks for "provision for" income taxes. Almost without exception, the companies reported a lower payment than the amount set aside (except in the case of the large steel companies, which gave the estimated payments). A further discrepancy arose from the fact that the Securities and Exchange Commission included under this heading: "Federal taxes on income, excess profits, and undistributed earnings; State taxes on income; and foreign taxes on income."

Total taxes were usually greater than the amount as reported to the Commission. A number of explanatory notes showed that many taxes had been included in other operating expenses. Returns which disagreed with the figures in the Securities and Exchange Commission's publication but had no explanation as to the discrepancy were still assumed to be correct if (*a*) the total taxes did not vary by more than 10 percent of the amount as reported to the Securities and Exchange Commission, (*b*) the discrepancy could be accounted for by differences in the income tax, or (*c*) by the fact that some one other tax item had apparently not been reported as a tax. For example: Suppose total taxes as listed in the Survey of American Listed Corporations for company A were $50,000 with $15,000 of this allocated to income taxes. Total taxes were given by the company in its questionnaire as $60,000 and income taxes in all categories amounted to $7,500. This means that there is a sum of $17,500 in excess of the tax payments as revealed by Form 10–K. Looking at the break-down of taxes, we see that property taxes are about $17,000. The return is marked correct on the assumption that property taxes were not separately reported to the Securities and Exchange Commission. When this test was applied, very few returns seemed to be incorrect.

All returns had to be examined to determine whether entries (whether in dollars or as zero) were made for taxes that should have been paid. Large companies doing business in a number of States supposedly paid taxes under all the headings, except perhaps Federal excises. In the case of smaller firms, State taxes that should have been paid were checked against the tax system of the home office as outlined in Tax Systems of the World.

Taxes included in the "all other" category were often identified more specifically, which facilitated their being placed in the correct bracket or else excluded. Only a few corporations listed large amounts in this category without describing the payment.

Taxes recorded but excluded in editing included all payments to foreign or territorial governments. In the case of companies doing a large foreign business, such charges amounted to a large proportion of the total tax bill, but for the survey as a whole they were not significant. To include foreign taxes would have been impossible because (*a*) many companies which reported foreign taxes reported only foreign income taxes, and (*b*) some of the companies paying

substantial sums abroad failed to report them because they assumed that we were interested only in United States' taxes. Also excluded were income taxes paid for bondholders under tax-free covenents. Although paid by the corporation they were considered not tax payments of the corporation, but in the nature of additional interest payments.

The entries most frequently missing were the Federal excises and State sales levies, probably because they are so often passed on to the buyer. Processing taxes were likewise often omitted. Breweries, tobacco, and liquor companies made fairly complete returns on these two types of levies, but petroleum refineries almost invariably failed to report such expenditures or else combined the two so that the sum was unusable. Very few of the automobile parts companies reported the excises on their products.

Although one or more tax items may have been incorrect, the schedule was of course usable insofar as the specific entries were correct, except when tabulating "total taxes." Incomplete questionnaires could be used by tabulating separately the economic items (which were copied from the Survey of American Listed Corporations) for each tax item that was correct. For example: To get the ratio of income taxes to net before interest, only cards reporting income taxes correctly would be tabulated for net and income taxes. Then the ratio would be calculated. If State sales taxes as a percentage of sales were desired, only cards reporting sales taxes correctly would be used; for the relation of property taxes to sales, only cards having property taxes entered correctly. This would mean that there would be a varying number of cases used in the calculation of each ratio, because not all of the same cards would be correctly filled in for each item.

A small number of returns were unusable because taxes were reported for the parent registrant only, while the economic data supplied by the Securities and Exchange Commission covered subsidiaries as well.

The computation of wages for the purpose of estimating "gross margin" presented a special problem. The Social Security pay roll and unemployment compensation taxes paid were used in the calculation. It was assumed that the tax payments were 1 percent of wages in 1936, 3 percent in 1937, and 4 percent in 1938 (the 1938 material was calculated to check the 1936 and 1937 figures). The payments as reported for each year were divided by the appropriate percentages and the resulting quotients multiplied by 100. This product was used as the wage bill of the reporting concerns.

So far the problem seems simple, but there are certain complications. The old-age annuity payment was 1 percent for 1937 and 1938. The Federal unemployment compensation levy was 1 percent in 1936, 2 percent in 1937, and 3 percent in 1938, with a rebate up to 90 percent of these sums of the amount paid by a company to a State unemployment fund. Thus a company in 1936 paid only 0.1 percent to the Federal Government if there was a State system in which the rate was at least 0.9 percent. No company could pay less than the rates assumed, but there was a chance of its paying more. If a State had a rate of 3 percent in 1938, the company would pay 3.3 percent because the Federal Government rebated only 90 percent of its 3 percent rate or 2.7 percent. Most States levied the tax at the rate of 2.7 percent in 1938, with a few higher rates. In previous years there is more

likelihood that the State tax was higher than the minimum assumed. As a result, a larger wage bill would occasionally be calculated than was actually paid. On the other hand, because Social Security taxes are paid only on wages and salaries under $3,000, a wage bill computed from the tax paid would have a tendency to be too small.

When the 1936 and 1937 wage-sales ratios were calculated, there was in most cases very little variation between the 2 years. All returns which indicated a year-to-year variation in wage rates of more than 10 percent were subjected to further scrutiny. The fiscal year for these companies was obtained from Moody's 1939 Industrial Manual as also the 1938 sales figures if they were available. If the fiscal year was the same as the calendar year, the wage-sales ratio was calculated for 1938. Then if the ratio exhibited a trend up or down, the calculated wages were allowed to stand, provided the trend was within reason. Some did not seem to be, and the wages were not entered.

Where the fiscal year ended in some other month than the calendar year, wages had to be calculated by using the number of months of each calendar year in the fiscal year times the rate of the tax levy in the appropriate calendar year. For example, with a fiscal year ending June 30, 1937, the Social Security tax paid in the fiscal year was divided by 24 (6 months at 1 percent and 6 months at 3 percent) and the quotient multiplied by 1,200 (12 months by 100) to get wages for the 1936 fiscal year. This is a form of extrapolation. For 1937 the wages were gotten by dividing the tax paid in the 1937–38 fiscal year by 42 and multiplying the quotient by 1,200. The 1937 wages were obtained from 1937–38 fiscal year figures rather than from 1936–37 fiscal year returns, because most returns had more months in the 1937–38 year than in the 1936–37 one.

One check of the accuracy of this method was a comparison of the wage-sales ratio for the 2 years. In most cases the ratio did not vary much, although somewhat more than in the case where the fiscal year and calendar year were the same. One error in the method arises from the cyclical variation present. The calculation used assumed that there was none. It is apparent, however, that in the computation of 1936 wages from social security taxes paid in 1936–37, some account should be taken of the fact that most businesses operated at a higher level in the early part of 1937 than in 1936. The wage bill as computed for 1936 was larger than in actuality. When using the 1937–38 fiscal year to get 1937 wages, just the opposite would be true. Some correction could have been made, at great labor expense. Wages for 1937 might have been calculated from the 1937–38 fiscal year tax payments, and also from the 1936–37 payments. This would have given in most cases a lower figure for the first computation than for the second, because of the depression in the latter part of 1937 and in 1938. Then the figure could have been averaged on the basis of a double system of weighting. The number of months of 1937 contained in the fiscal years and the rate of industrial activity for that industry for each month in 1937 as given by some of the numerous indexes available would have to be taken into account.

No attempt was made to adjust for the seasonal variation in business which should be done where the fiscal year was not evenly divided between the 2 calendar years.

Gross margin is the sum of gross profits as reported to the Securities and Exchange Commission, plus wages as calculated. This is not the same item as "value added" as definited by the Census Bureau, because there have been excluded from the cost of sales (which, added to gross profits, give sales), not only the wages charged to cost of sales but also the salaries under $3,000 included in selling, general, and administrative expense. As a result, "gross margin" may be larger than it logically should be. By how much is not known. An additional unknown factor arises from the possibility of different accounting concepts adopted by individual firms when charging items to cost of sales, or selling, general, and administrative expenses.

Labor cost ratio.—This ratio is that of wages, as calculated from social security taxes paid, to total sales.

Profit ratio.—This ratio was computed by taking the net operating result for the period before interest, prior claims, and income tax, and dividing this amount by the total of invested capital at the end of the period. Invested capital consists of (*a*) long-term debt including Treasury bonds carried as assets; bonds held in sinking funds; bonds of subsidiaries consolidated held by subsidiaries consolidated, and long-term debt due within 1 year for which funds had already been earmarked, and (*b*) net worth, i. e., capital stock and surplus less deficit carried as an asset, Treasury stock carried as an asset, preferred stock held in sinking fund, and discount on capital stock plus minority interest.

Equity ratio.—This ratio is that of net worth (as previously defined) to total debt (including long-term debt and current liabilities).

TABLE II.—*Number of corporations in 1937 tax sample*

	Total	Food	Beverages	Tobacco	Textiles	Lumber	Paper	Printing	Chemicals	Petroleum	Leather	Rubber	Building products	Iron and steel	Nonferrous metals	Machinery	Transportation equipment	Miscellaneous manufacturing	Chain stores	Department stores	Wholesale	Miscellaneous merchandise
1. By profit rate classes:																						
Deficit	13	3	1		1								1			3	1		2		1	
Under 5 percent	62	11		1	5		1	1	3	2	1	1	3	3	4	6	9		7	2	2	
5 to 10 percent	167	24	3	4	6	1	11	6	10	11	3	3	7	11	4	16	16	10	6	9	5	1
10 to 15 percent	128	6	2	5	10	2	2	3	9	5	4	1	8	4	6	13	12	9	15	9	3	
15 to 20 percent	80	3	4	2	1		3		8	1		2	4	2	4	17	14	7	6	1		1
20 to 25 percent	59	2	3	1	3		3	2	1				2	3	2	15	11	4	6			1
25 to 30 percent	39	1			2		1	2	4				1	1	1	11	7	4	2	1		1
30 to 35 percent	25	2	2						1	1			2			13	3	1				
35 to 40 percent	12	1								1				1		5	4					
Over 40 percent	6								1	1		1		1		2						
Not computed	31	1	4	1					2			1	1		1	9	7	2	1		1	
Total	622	54	19	14	28	3	21	14	39	22	8	9	29	26	22	110	84	37	45	22	12	4
2. By profit rate classes (pay-roll and property taxes):																						
Deficit	45	3	5		3			1	2		2	1	3			7	11	2	3		2	
Under 5 percent	66	9	1		7		1	2	2		2	1	3	5	5	6	9	1	4	4	2	2
5 to 10 percent	137	19	2	4	6		11	6	7	2	3	2	7	9	3	15	16	9	5	6	4	1
10 to 15 percent	101	5	2	4	9	2	2	2	6			2	7	4	5	11	12	7	10	9	2	
15 to 20 percent	68	1	2	1	1		3		7			2	4	2	4	15	13	6	5	1		1
20 to 25 percent	55	2	2	1	3		3	2	1				2	3	2	13	10	4	6			1
25 to 30 percent	33	1			2			2	2				1	1	1	10	7	3	2			1
30 to 35 percent	25	2	2						1				2			13	4	1				
35 to 40 percent	12	1								1				1		5	4					
Over 40 percent	24	1	3	1					1				1		1	9	5	1			1	
Not computed	6								1	1		1		1		1	1					
Total	572	44	19	11	31	2	20	15	30	4	7	9	30	26	21	105	92	34	35	20	11	6

TABLE II.—*Number of corporations in 1937 tax sample*—Continued

	Total	Food	Beverages	Tobacco	Textiles	Lumber	Paper	Printing	Chemicals	Petroleum	Leather	Rubber	Building products	Iron and steel	Nonferrous metals	Machinery	Transportation equipment	Miscellaneous manufacturing	Chain stores	Department stores	Wholesale	Miscellaneous merchandise
3. By equity-ratio classes:																						
Under 2	96	10	6	1	2	------	7	1	3	3	2	6	3	6	2	13	13	5	3	7	3	------
2 to 4	134	13	5	4	4	2	4	4	6	6	3	1	5	3	5	18	19	8	17	4	2	1
4 to 8	166	6	3	1	6	------	3	3	8	7	------	1	8	9	6	43	29	6	14	8	4	1
8 to 12	98	11	3	1	5	------	3	2	8	1	------	1	4	4	4	18	15	9	3	4	1	1
12 to 16	44	5	1	------	6	1	------	2	3	2	1	------	2	3	1	8	1	4	2	1	1	------
16 to 20	36	3	------	3	1	------	3	1	9	------	2	------	2	------	3	------	5	2	1	1	------	------
Over 20	35	3	------	4	3	------	1	1	2	3	------	------	4	1	1	7	1	3	------	------	------	1
Total	609	51	18	14	27	3	21	14	39	22	8	9	28	26	22	107	83	37	40	25	11	4
4. By labor-cost classes:																						
Under 10	53	14	9	3	------	------	2	------	5	5	------	------	------	------	2	2	------	1	2	3	4	1
10 to 20	183	26	15	5	2	------	1	------	17	17	1	------	2	2	10	12	10	8	33	13	7	2
20 to 30	217	16	2	4	9	------	12	7	16	4	8	5	16	10	7	31	34	16	7	9	1	3
30 to 40	150	3	1	1	14	1	6	6	3	------	1	5	6	11	------	43	33	12	3	------	------	1
40 to 50	65	1	------	------	5	1	------	2	------	------	------	1	5	5	4	21	15	5	------	------	------	------
Over 50	29	------	------	------	4	------	------	1	------	------	------	------	4	------	------	10	8	1	------	------	1	------
Total	697	60	27	13	34	2	21	16	41	26	10	11	34	28	23	119	100	43	45	25	13	7
5. By size classes (assets in millions of dollars):																						
Under $1	67	5	6	1	2	------	1	2	1	------	1	2	2	1	1	17	12	8	3	------	1	1
$1 to $5	243	18	14	2	18	1	6	5	12	5	4	4	12	6	6	49	35	12	16	9	5	4
$5 to $10	109	3	2	1	6	1	3	4	7	1	1	2	7	4	4	24	19	7	7	4	1	1
$10 to $50	184	21	1	6	7	------	8	4	17	3	------	2	10	7	6	21	29	13	13	9	6	1
$50 to $200	65	9	4	2	1	------	3	1	2	9	4	1	2	4	5	5	4	3	5	1	------	------
Over $200	29	4	------	1	------	------	------	------	2	8	------	------	------	6	1	3	1	------	1	2	------	------
Total	697	60	27	13	34	2	21	16	41	26	10	11	33	28	23	119	100	43	45	25	13	7

EXHIBIT 1

DUN & BRADSTREET, INC.,
THE MERCANTILE AGENCY.

DEAR SIR: Taxes are a vitally important business problem, yet no one actually knows the present tax burden on trade or industry. This year's Dun & Bradstreet Survey, while continuing the main purpose of estimating sales and inventory trends, asks you a series of questions on the amount of taxes your business has paid.

The questions have been prepared with great care, to yield a maximum of information with minimum effort on your part. The findings will show what part business pays of the total tax bill—Federal, State, and local. This is the first attempt on so wide a scale to obtain information of this nature, and it may have very significant results.

The tabulations will be made by our research and statistical division, and the information received on the questionnaire will not be available to our regular reporting divisions. No individual figures will be published; the results will be presented in totals and averages.

We shall send, without charge, a complete summary of the results to everyone who participates by supplying us with the raw material. These survey findings will be extremely valuable and convincing, as they will represent the experience of thousands of businessmen.

The questionnaire has been prepared in two parts, which can be separated. If there may be a delay in answering the tax burden questions, tear off the right-hand sheet for later mailing. The value of sales and inventory information depends upon the speed with which the results are available, so kindly send in at least the business trend schedule as quickly as possible.

Very truly yours,

A. D. WHITESIDE, *President.*

For Research Purposes Only

BUSINESS TREND SURVEY

First: Kindly return this left half of sheet at the *earliest possible date.* Figures from your income-tax return are not necessary.

Second: If tax figures are not yet available at the same time, detach right-hand sheet and mail later.

1. Type of business:
   Describe type of operation and main line of products handled or service rendered. (Examples: grocery and meat retailing, radio manufacturing, coal mining, plumbing contractor, hotel).

	1937	1938
2. Annual sales (or volume of business)----------------	$--------	$--------
3. Inventory (at end of year)-------------------------	$--------	$--------

(Do not include plant or equipment valuation. Give fiscal year closing date if not December 31------------------)

(Give figures in dollars—omit cents)

Address for Mailing Results of Survey

Name of concern (print or typewrite)--
(If a subsidiary, please write name of parent company at bottom of page.)

Attention of: (Department or individual)----------------------------------

Street address (print or typewrite)---------------------------------------

City and State (print or typewrite)---------------------------------------

Mail this sheet direct to DUN & BRADSTREET, INC., RESEARCH AND STATISTICAL DIVISION, 290 BROADWAY, NEW YORK CITY, OR IN THE ENCLOSED ENVELOPE TO OUR LOCAL OFFICE.

For Research Purposes Only

TAX BURDEN SURVEY

The following *taxes were paid during 1938* by this concern:

(Enter amount *actually paid* even though you keep books on accrual basis. The desired figures will, in most cases, be more readily available from tax schedules than from the expense ledgers.)

(Make entry on every line—"none," "no record," or dollar amount—omit cents)

1. Federal taxes on business income:
   (*a*) Corporations: Include income, undistributed profits, corporation capital stock, and excess-profits taxes---- $----------
   (*b*) Partnerships and proprietors: If there is other income divide total tax proportionately and enter only total individual taxes paid on business income------------ *or* $----------
2. Social security taxes and contributions, combined State and Federal, both old-age and unemployment:
   (*a*) Employer's contribution-------------------------- $----------
   (*b*) Employee's contribution-------------------------- $----------
3. Sales and excise taxes on outgoing goods—paid by you direct to a Government body:
   (*a*) Federal (manufacturer's excise taxes on gasoline, cigarettes, liquor, etc.)-------------------------- $----------
   (*b*) State and local (retail sales taxes, tobacco, liquor taxes, etc.)-------------------------------------- $----------
4. All other State and local taxes:
   (*a*) State income taxes—see instructions for item 1 above-- $----------
   (*b*) Property taxes, on business property only—exclude special assessments-------------------------- $----------
   Please indicate whether business quarters are: Owned ☐ rented ☐
   (*c*) Business franchises, chain-store taxes, etc------------- $----------
   (*d*) All other taxes and licenses------------------------ $----------
5. If you have made any special study or tabulation of your taxes, particularly comparisons of several years, we shall be grateful for a copy.

If this tax-survey sheet is returned separately, place name and address in the space provided below.

THE TAX-BURDEN SURVEY

It is well known that the tax burden on business has grown heavier in recent years, that taxes frequently absorb a large part of potential profits. Total tax receipts of the country can be added up from Federal, State, and local budgets, but the tax burden on business is not known separately. Do taxes bear most heavily on small enterprises, the medium sizes, or the large ones? Which industries carry the heaviest burden? How much is Federal, how much State and local?

Business can tell its story with more force, and seek relief from inequities with more chance of success, if it has the facts.

Kindly return this sheet before April 1, 1939, to your local DUN & BRADSTREET OFFICE, OR DIRECT TO RESEARCH AND STATISTICAL DIVISION, 290 BROADWAY, NEW YORK CITY.

Address for Mailing Results of Survey

Fill in only if this page is returned separately

Name of concern (Print or typewrite)------------------------------------
(If a subsidiary, please write name of parent company at bottom of page.)
Attention of: (Department or individual)------------------------------------
Street address (Print or typewrite)------------------------------------
City and State (Print or typewrite)------------------------------------

EXHIBIT 2

DEPARTMENT OF COMMERCE,
OFFICE OF THE ASSISTANT SECRETARY,
Washington.

The tax payments of business enterprise are now being studied by the Department of Commerce in connection with its work for the Temporary National Economic Committee.

Total tax receipts can be, and have been, estimated by adding the Federal, State, and local budgets. But such figures are not enough to answer many of the tax questions of business. Are some industries subject to heavier tax burdens than others? What different types of taxes does American business pay? In what ways has the business tax burden been increasing? In short, what are the fundamental facts about business taxation today?

You have already filed detailed statements about the corporation's business with the Securities and Exchange Commission. But we would like more details about your taxes over the last few years than the filed profits-and-loss statement provides. The Department is, of course, familiar with the general findings of the recent tax survey conducted by Dun & Bradstreet, Inc., for 1938, but that survey was based on returns principally from small and medium-sized business. Again we would like more information.

You can help us to get these details by filling out the attached one-page schedule and mailing it, before October 1, 1939, to the Department of Commerce. A franked addressed envelope is enclosed for this purpose. Please note that the schedule is to be sent to the Department of Commerce, and not to the Securities and Exchange Commission, and its filing is of course not subject to the requirements of the Securities Exchange Act of 1934. Your cooperation and that of other business concerns is necessary if we are to get at the facts of business taxation.

Sincerely yours,

WILLARD L. THORP,
Director of Economic Studies.

DEPARTMENT OF COMMERCE

BUREAU OF FOREIGN AND DOMESTIC COMMERCE

Washington, D. C.

Business taxation schedule for years 1934–38

Name of corporation____

Please enter the following information (in dollars, omitting cents) as fully as your records will permit and according to the same reporting base as to subsidiaries that was used in Form 10–K of your annual report to the Securities and Exchange Commission. Where exact figures are not available and estimates have been prepared, please identify the estimates by encircling the figures. Include only taxes paid direct to a Government body. Do not include taxes paid in connection with the purchase of commodities, such as customs and import duties, gasoline taxes, etc.

	1934	1935	1936	1937	1938
1. Federal corporation income taxes, including excess profits	$	$	$	$	$
2. Undistributed profits tax	XXX	XXX			
3. Federal capital stock tax					
4. Federal excises					
5. Federal-State pay-roll taxes, including old-age and unemployment taxes	XXX	XXX			
6. State taxes on net income include "franchise" taxes in California, Connecticut, Montana, New York, and Utah where based on net income					
7. State sales, gross receipts, gross income taxes					
8. Property taxes, including real estate and personalty					
9. Corporation franchise and privilege taxes other than on income					
10. Other (specify)					
11. Total taxes					

NOTE.—The report on "total taxes" should agree with the sum of your taxes classed as (1) operating expenses and (2) charges on net income in your annual report on Form 10–K to the Securities and Exchange Commission. If not, please explain.

APPENDIX F

TECHNICAL TABLES

TABLE 1.—*United States tax collections, 1860–1938*

[All figures in millions of dollars]

IN CURRENT DOLLARS

	Federal [1]	State and local [2]	Total	Per capita		
				Federal	State and local	Total
1860	53	[3] 94	147	1.69	2.98	4.67
1870	379	[3] 281	660	9.80	7.27	17.07
1880	311	[3] 314	625	6.18	6.25	12.43
1890	372	471	843	5.90	7.47	13.37
1902	526	861	1,387	6.63	10.85	17.48
1910	624	1,459	2,083	6.77	15.81	22.58
1913	663	1,597	2,260	6.87	16.55	23.42
1915	626	1,900	2,526	6.30	19.13	25.43
1920	5,728	3,265	8,993	53.77	30.64	84.41
1922	3,570	4,016	7,586	32.49	36.55	69.04
1925	3,137	4,919	8,056	27.31	42.82	70.13
1928	3,364	6,105	9,469	28.07	50.93	79.00
1930	3,626	6,798	10,424	29.45	55.24	84.69
1931	2,808	6,583	9,391	22.62	53.04	75.66
1932	1,889	6,679	8,568	15.12	53.44	68.56
1933	1,855	5,675	7,530	14.75	45.12	59.87
1934	2,954	5,855	8,809	23.33	46.24	69.57
1935	3,621	6,102	9,723	28.39	47.86	76.25
1936	3,900	6,639	10,539	30.36	51.70	82.06
1937	5,084	7,022	12,106	39.33	54.33	93.66
1938	6,034	8,777	14,811	46.48	67.61	114.09

ADJUSTED TO 1926 DOLLARS (BUREAU OF LABOR STATISTICS WHOLESALE INDEX)

	Federal	State and local	Total	Per capita		
				Federal	State and local	Total
1860	87	154	241	2.78	4.89	7.67
1870	437	324	761	11.30	8.39	19.68
1880	478	482	960	9.49	9.60	19.09
1890	662	838	1,500	10.50	13.29	23.79
1902	893	1,462	2,355	11.26	18.42	29.68
1910	886	2,073	2,959	9.62	22.45	32.07
1913	950	2,288	3,238	9.84	23.71	33.55
1915	901	2,734	3,635	9.06	27.52	36.58
1920	3,710	2,115	5,825	34.83	19.84	58.25
1922	3,692	4,153	7,845	33.60	37.80	71.40
1925	3,031	4,753	7,784	26.39	41.37	67.76
1928	3,479	6,313	9,792	29.03	52.67	81.70
1930	4,197	7,868	12,065	34.09	63.93	98.02
1931	3,847	9,017	12,864	30.99	72.65	103.64
1932	2,915	10,307	13,222	23.33	82.47	105.80
1933	2,815	8,612	11,427	22.38	68.47	90.85
1934	3,944	7,817	11,761	31.15	61.73	92.88
1935	4,526	7,628	12,154	35.49	59.82	95.31
1936	4,826	8,217	13,043	37.57	63.99	101.56
1937	5,891	8,137	14,028	45.58	62.95	108.53
1938	7,677	12,404	20,081	58.96	95.25	154.21

[1] Annual Report of the Secretary of the Treasury, 1938, pp. 410–413, on basis of warrants issued up to 1915 and on basis of daily Trasury statements (unrevised) from 1916 onward.
[2] For years 1860–1930, inclusive, Recent Social Trends, p. 1342. For 1932, Financial Statistics of State and Local Governments, p. 7. For 1931, Cost of Government in the United States, 1935–37, p. 30. For 1933, 1934, and 1935, Facing the Tax Problem, pp. 576–577. For 1936 and 1937, Clarence Heer, Federal Aid and the Tax Problem, p. 31. For 1938, Bulletin of the Treasury Department, August, 1939, p. 4. These figures for State and local taxes are obviously not comparable in any strict sense, because of the divergent sources employed, but they are believed valid for a broad comparison.
[3] Includes ad valorem levies only.

TABLE 1.—*United States tax collections, 1860–1938*—Continued

[All figures in millions of dollars]

ADJUSTED TO 1913 DOLLARS (NEW YORK RESERVE BOARD INDEX)

	Federal	State and local	Total	Per capita		
				Federal	State and local	Total
1860	75	132	207	2.38	4.20	6.58
1870	372	275	647	9.61	7.13	16.74
1880	379	383	762	7.54	7.62	15.16
1890	477	604	1,081	7.56	9.58	17.14
1902	626	1,025	1,651	7.89	12.92	20.81
1910	643	1,504	2,147	6.98	16.30	23.28
1913	663	1,597	2,260	6.87	16.55	23.42
1915	608	1,845	2,453	6.12	18.57	24.69
1920	2,968	1,692	4,660	27.86	15.88	43.74
1922	2,250	2,542	4,801	20.56	23.14	43.70
1925	1,845	2,894	4,739	16.06	25.19	47.39
1928	1,911	3,469	5,380	15.95	28.94	53.80
1930	2,158	4,046	6,204	17.53	32.88	50.41
1931	1,872	4,389	6,261	15.08	35.36	50.44
1932	1,431	5,060	6,491	11.45	40.49	51.94
1933	1,438	4,399	5,837	11.43	34.98	46.41
1934	2,156	4,274	6,430	17.03	33.75	50.78
1935	2,497	4,208	6,705	19.58	33.01	52.59
1936	2,532	4,311	6,943	19.71	33.58	53.29
1937	3,158	4,361	7,519	24.43	33.74	58.17
1938	3,918	6,331	10,249	30.09	48.62	78.71

TABLE 2.—*Changing revenue sources of Federal, State, and local Governments, 1913–38*

PART A. IN MILLIONS OF DOLLARS

	Federal [1]						State and local						Total					
	1913	1922	1930	1932	1936	1938	1913 [2]	1922 [2]	1930 [2]	1932 [3]	1936 [4]	1938 [5]	1913	1922	1930	1932	1936	1938
Income	35	2,087	2,410	1,057	1,427	2,623	2	101	243	102	241	427	37	2,188	2,653	1,159	1,668	3,050
Death		139	65	47	379	417	26	68	186	149	102	145	26	207	251	196	481	562
Pay roll						743						707						1,440
Customs	319	358	585	328	387	359							319	358	585	328	387	359
Sales	309	834	495	427	1,285	1,406	80		[6] 14	[6] 20	666	1,394	389	834	509	447	1,951	2,600
Highway					272	293	8	164	835	[6] 846	976	1,188	8	164	835	846	1,248	1,481
Property							1,317	3,321	5,027	5,006	4,181	4,892	1,317	3,321	5,027	5,006	4,181	4,892
All other	61	691	623	147	366	401	164	362	492	556	473	997	225	1,223	1,115	803	839	1,508
Total revenue	724	4,109	4,178	2,006	4,116	6,242	1,597	4,016	6,797	6,679	6,639	9,750	2,321	8,295	10,975	8,785	10,755	15,892

PART B. IN PERCENT TO TOTAL REVENUE

	Federal [1]						State and local						Total					
	1913	1922	1930	1932	1936	1938	1913 [2]	1922 [2]	1930 [2]	1932 [3]	1936 [4]	1938 [5]	1913	1922	1930	1932	1936	1938
Income	4.8	50.8	57.7	52.7	34.7	42.0	0.1	2.5	3.6	1.5	3.7	4.4	1.6	26.4	24.2	13.2	15.5	19.2
Death		3.4	1.6	2.3	9.2	6.7	1.6	1.7	2.7	2.2	1.5	1.5	1.1	2.5	2.3	2.2	4.5	3.5
Pay roll						11.9						7.2						9.1
Customs	44.1	8.7	14.0	16.4	9.4	5.8							13.7	4.3	5.3	3.7	3.6	2.2
Sales	42.7	20.3	11.8	21.3	31.2	22.5	5.0		.2	.3	10.0	14.3	16.8	10.1	4.6	5.1	18.1	16.4
Highway					6.6	4.7	.5	4.1	12.3	12.7	14.7	12.2	.3	2.0	7.6	9.6	11.6	9.3
Property							82.5	82.7	74.0	75.0	63.0	50.2	56.8	40.0	45.8	57.0	38.9	30.8
All other	7.4	16.8	14.9	7.3	8.9	6.4	10.3	9.0	7.2	8.3	7.1	10.2	9.7	14.7	10.2	9.2	7.8	9.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

[1] Annual Report of the Secretary of the Treasury, fiscal year 1939, pp. 358–365, 375–377; ibid., 1929, pp. 419–424. Customs and total Federal tax collections are on the basis of daily Treasury statements (unrevised); sales, income, death, and highway figures are on a collection basis; whatever discrepancy may exist between the former and the latter is absorbed in the item entitled "All other."

[2] Recent Social Trends, p. 1370.

[3] Financial Statistics of State and Local Governments, p. 7.

[4] Clarence Heer, Federal Aid and the Tax Problem, p. 34.

[5] House Ways and Means Committee, Hearings on Tax-Exempt Securities, p. 40. The figures for State and local taxes are obviously not comparable in any strict sense because of the divergent sources employed, but they are believed valid for a broad comparison.

[6] Collections from Selected State-Imposed Taxes, 1930–36.

TABLE 3.—*Corporate gross and net incomes and Federal corporate income taxes, 1909–37*

[In millions of dollars]

	Gross income (all corporations)	Net income (net income corporations)	Income tax	War-profits and excess-profits tax	Undistributed-profits tax	Total tax
1909	(1)	3,590	21	(2)	(2)	21
1910	(1)	3,761	34	(2)	(2)	34
1911	(1)	3,503	29	(2)	(2)	29
1912	(1)	4,151	35	(2)	(2)	35
1913	(1)	4,714	43	(2)	(2)	43
1914	(1)	3,940	39	(2)	(2)	39
1915	(1)	5,310	57	(2)	(2)	57
1916	35,328	8,766	172	(2)	(2)	172
1917	84,693	10,730	504	1,639	(2)	2,142
1918	86,465	8,362	653	2,506	(2)	3,159
1919	99,919	9,411	744	1,432	(2)	2,175
1920	118,205	7,903	637	989	(2)	1,625
1921	91,249	4,336	366	335	(2)	702
1922	100,921	6,964	775	8	(2)	784
1923	118,563	8,322	937	(2)	(2)	937
1924	119,229	7,587	882	(2)	(2)	882
1925	134,260	9,584	1,170	(2)	(2)	1,170
1926	142,130	9,673	1,230	(2)	(2)	1,230
1927	144,398	8,982	1,131	(2)	(2)	1,131
1928	152,782	10,618	1,184	(2)	(2)	1,184
1929	160,622	11,654	1,193	(2)	(2)	1,193
1930	136,062	6,429	712	(2)	(2)	712
1931	107,515	3,683	399	(2)	(2)	399
1932	81,084	2,153	286	(2)	(2)	286
1933	83,642	2,986	416	7	(2)	423
1934	100,831	4,275	588	8	(2)	596
1935	113,936	5,165	710	25	(2)	735
1936	132,278	9,478	1,035	22	145	1,191
1937	141,967	9,635	1,057	43	176	1,276

[1] Unavailable.
[2] No tax in force.

Source: Statistics of Income.

TABLE 4.—*Federal taxes and corporate income available for reinvestment or distribution to individuals, 1916–37*

[In millions of dollars]

	Total Federal taxes (1)	Cash dividend paid out to individuals (2)	Interest paid (3)	Depreciation and depletion (4)	Corporate profits (excluding intercorporate dividends) after Federal taxes (5)	Corporate income available for investment ((5) less (2)) (6)
1916	172				8,766	
1917	2,142				10,730	
1918	3,159				3,362	
1919	2,175				9,411	
1920	1,625				7,903	
1921	702				4,336	
1922	784				6,964	
1923	937		2,376	2,302	7,721	
1924	882		2,463	2,379	7,107	
1925	1,170		2,752	2,739	8,808	
1926	1,230	4,287	2,981	3,125	8,842	4,555
1927	1,131	4,481	3,069	2,792	8,259	3,778
1928	1,184	4,990	3,396	3,250	9,922	4,932
1929	1,193	5,653	3,626	3,602	10,891	5,238
1930	712	5,077	2,852	2,867	6,067	990
1931	399	3,019	1,499	1,823	3,500	481
1932	286	1,883	863	1,292	2,015	132
1933	423	1,946	889	1,627	2,717	771
1934	596	2,912	1,030	1,872	3,877	965
1935	735	3,159	1,151	2,084	4,627	1,468
1936	1,191	4,675	1,706	2,674	6,031	1,356
1937	1,276	4,794	1,664	2,855	6,057	1,263

Source: Computed from Statistics of Income for respective years.

TABLE 5.—*Effect of 1932 abolition of minimum income exemption by size classes and industries*

Federal tax as percent of net income (after prior year's loss)	Years	Under $50	$50–$100	Size classes (based on assets in thousands)						
				$100–$250	$250–$500	$500–$1,000	$1,000–$5,000	$5,000–$10,000	$10,000–$50,000	Over $50,000
Mining	1931	6.7	7.8	9.8	11.2	11.4	11.6	12.0	12.0	12.0
	1932	13.4	13.7	13.7	13.6	13.7	13.8	13.8	13.9	14.5
Trade	1931	2.5	5.4	8.4	10.6	11.5	12.0	11.9	11.7	12.0
	1932	13.1	13.4	13.5	13.5	13.6	13.5	13.9	13.9	14.1
Service	1931	4.0	7.2	9.3	11.3	11.5	12.0	12.0	12.0	12.0
	1932	13.3	13.6	13.6	13.5	13.7	14.2	13.9	13.7	13.6
Construction	1931	3.0	7.3	9.9	11.4	11.7	12.0	12.0	12.0	12.0
	1932	12.9	13.5	13.5	13.6	13.6	13.8	13.7	13.8	-------
Public utilities	1931	3.7	7.5	9.1	11.0	11.7	12.0	12.0	12.0	12.0
	1932	13.3	13.5	13.6	13.6	13.6	13.7	13.8	13.8	14.1
Finance	1931	3.0	4.2	6.3	8.4	9.7	11.4	11.9	12.0	12.0
	1932	13.6	13.6	13.6	13.5	13.7	13.5	13.7	13.8	13.8
Total manufacturing	1931	3.4	6.8	9.5	11.2	11.7	12.0	12.0	12.0	12.0
	1932	13.5	13.4	13.5	13.4	13.7	13.7	13.7	13.8	13.9
Food and beverages	1931	4.8	7.2	9.8	11.4	11.7	12.0	12.0	12.0	12.0
	1932	12.2	13.4	13.4	13.2	13.6	13.7	13.7	13.9	13.9
Tobacco	1931	7.2	4.4	10.8	11.0	11.8	11.6	12.1	12.0	12.0
	1932	13.8	12.8	13.8	14.2	13.9	13.8	13.8	14.0	13.7
Textiles	1931	2.0	6.0	8.8	11.0	11.5	12.0	12.0	12.0	12.0
	1932	12.8	13.3	13.3	13.5	13.6	13.5	12.8	12.7	13.0
Leather	1931	3.4	6.6	9.3	11.2	12.0	11.9	12.0	12.0	12.0
	1932	13.1	13.5	13.5	13.0	13.0	13.6	13.8	12.5	13.6
Rubber	1931	5.0	6.3	12.0	11.4	11.5	12.0	12.0	-------	12.0
	1932	14.0	13.0	13.6	13.6	18.2	13.5	14.4	-------	14.1
Forest products	1931	2.1	6.8	8.8	9.9	12.0	11.9	11.8	12.2	-------
	1932	13.0	13.9	13.4	13.5	13.7	13.7	13.9	-------	-------
Paper	1931	3.2	5.9	9.4	11.2	11.7	12.0	12.0	12.0	12.0
	1932	13.4	13.1	13.9	13.5	15.0	13.7	13.5	13.7	13.8
Printing	1931	2.9	6.6	9.6	11.3	11.8	11.8	12.0	12.0	12.0
	1932	13.5	13.5	13.7	13.7	13.7	13.8	13.8	14.0	13.9
Chemicals	1931	4.4	6.9	10.2	11.6	11.8	12.0	12.0	12.0	12.1
	1932	13.5	13.6	13.4	13.5	12.5	13.6	13.8	14.0	14.3
Stone, clay, glass	1931	1.5	6.6	9.0	10.8	11.5	11.7	12.0	12.0	12.0
	1932	12.7	13.8	13.7	13.5	13.5	13.7	13.8	13.8	13.9
Metals	1931	2.9	6.9	9.0	11.1	11.7	12.0	12.0	12.0	12.0
	1932	13.6	13.0	13.4	13.6	13.6	13.7	13.6	14.1	14.0

Source: Computed from the Sourcebook of the Statistical Section of the Bureau of Internal Revenue.

TABLE 6.—*Statutory deductions as percent of corporate receipts by size classes, 1937*

Size classes (assets in thousands)	Cost of goods and operation	Compensation of officers	Rent paid	Bad debts	Interest paid	Taxes paid	Depreciation	Depletion	Other[1] deductions	Total deductions
Under $50	73.2	6.3	2.8	0.6	0.5	1.2	1.2	([1])	15.2	101.2
$50 to $100	75.2	4.4	1.6	.6	.8	1.4	1.4	0.1	14.1	99.5
$100 to $250	74.4	3.6	1.3	.6	1.0	1.6	1.5	.1	14.3	98.6
$250 to $500	72.6	2.9	1.1	.6	1.3	2.0	1.7	.2	15.0	97.5
$500 to $1,000	71.5	2.4	1.0	.6	1.4	2.3	1.9	.2	15.3	96.8
$1,000 to $5,000	68.5	1.6	.9	.6	1.7	2.6	2.3	.3	16.3	94.9
$5,000 to $10,000	65.9	1.1	.9	.6	2.1	2.8	2.6	.5	17.0	93.6
$10,000 to $50,000	63.6	.7	.9	.5	2.2	2.8	2.9	.5	17.2	91.6
$50,000 to $100,000	64.0	.5	.7	.4	3.0	3.6	2.9	.8	16.0	91.9
Over $100,000	62.2	.3	.8	.4	4.0	3.5	3.1	.6	14.6	89.4
Total	67.8	2.0	1.1	.5	2.1	2.6	2.3	.4	15.5	94.4

[1] Includes contributions and capital losses.

Source: Computed from Statistics of Income.

TABLE 7.—*Statutory deductions as percent of total corporate receipts, 1936, by size of corporations and industries*

[All corporation income-tax returns subject to the 1936 Revenue Act]

PART I. MAJOR INDUSTRIES

Size classes based on total assets (in thousands)	Manufacturing (including miscellaneous manufacturing) [1]	Mining	Trade	Service	Construction	Public utilities	Finance
	Cost of goods sold as percent of corporate receipts						
Under $50	70.1	29.1	77.8	(2)	44.4	(2)	(2)
$50 to $100	73.9	40.2	79.5	(2)	42.3	(2)	(2)
$100 to $250	74.9	46.4	79.2	(2)	35.1	(2)	(2)
$250 to $500	75.0	62.5	78.0	(2)	23.6	(2)	(2)
$500 to $1,000	74.0	65.1	77.5	(2)	24.3	(2)	(2)
$1,000 to $5,000	72.4	58.8	78.1	(2)	21.6	(2)	(2)
$5,000 to $10,000	71.6	56.4	77.8	(2)	28.7	(2)	(2)
$50,000 to $50,000	69.4	58.6	74.6	(2)	.1	(2)	(2)
$10,000 to $100,000	67.1	48.4	69.1	(2)	(3)	(2)	(2)
Over $100,000	76.2	54.1	70.6	(2)	(3)	(2)	(2)
	Cost of operations as percent of corporate receipts						
Under $50	4.7	32.3	2.5	47.4	30.8	54.8	56.5
$50 to $100	1.9	23.9	1.7	40.6	33.2	57.4	62.4
$100 to $250	1.2	17.9	1.1	38.4	41.3	58.9	41.9
$250 to $500	.3	.9	.3	29.1	53.2	60.9	2.1
$500 to $1,000	.3	.1	.2	26.1	50.6	59.6	1.5
$1,000 to $5,000	.3	.6	.3	28.8	48.2	55.4	.3
$5,000 to $10,000	.1	.2	.3	25.4	44.5	52.0	.8
$10,000 to $50,000	.1	.2	(4)	32.2	82.7	45.3	.9
$50,000 to $100,000	.4	1.2	4.0	52.0	(3)	49.9	.8
Over $100,000	.4	.1	.2	71.3	(3)	52.6	1.5
	Compensation of officers as percent of corporate receipts						
Under $50	8.1	6.9	4.9	9.6	9.0	7.6	11.3
$50 to $100	5.6	5.1	3.4	7.3	6.7	5.6	7.8
$100 to $250	4.3	4.1	2.8	5.6	5.5	3.9	9.1
$250 to $500	3.0	3.2	2.0	3.9	11.0	2.8	11.8
$500 to $1,000	2.4	2.3	1.6	3.6	3.6	2.0	10.4
$1,000 to $5,000	1.5	1.7	1.0	2.1	2.4	1.2	7.0
$5,000 to $10,000	1.0	1.1	.5	1.0	1.4	.8	3.7
$10,000 to $50,000	.7	.7	.4	.7	.7	.5	2.2
$50,000 to $100,000	.4	.5	.4	.6	(3)	.4	2.2
Over $100,000	.1	.4	.1	(5)	(3)	.1	2.2
	Rent paid as percent of corporate receipts						
Under $50	1.9	1.1	2.2	7.6	0.9	3.6	3.6
$50 to $100	1.1	.6	1.3	5.8	.6	2.9	1.7
$100 to $250	.8	.7	1.2	4.8	.4	2.4	2.6
$250 to $500	.5	.4	1.2	4.1	.3	1.9	2.1
$500 to $1,000	.4	.4	1.2	3.8	.3	2.1	1.5
$1,000 to $5,000	.4	.5	1.3	4.0	.4	1.2	1.5
$5,000 to $10,000	.3	.4	1.2	3.6	.2	1.1	1.5
$10,000 to $50,000	.4	.4	2.1	4.1	.7	.7	1.1
$50,000 to $100,000	.6	.2	1.3	6.7	(3)	.8	1.1
Over $100,000	.3	.1	2.6	.8	(3)	.9	1.7

See footnote at end of table.

TABLE 7.—*Statutory deductions as percent of total corporate receipts, 1936, by size of corporations and industries*—Continued

[All corporation income-tax returns subject to the 1936 Revenue Act]

Size classes based on total assets (in thousands)	Manufacturing (including miscellaneous manufacturing)	Mining	Trade	Service	Construction	Public utilities	Finance
	Bad debts as percent of corporate receipts						
Under $50	0.6	0.7	0.5	0.6	0.5	0.7	0.7
$50 to $100	.5	.6	.6	.8	.4	.5	.7
$100 to $250	.5	.7	.7	.7	.4	.5	1.4
$250 to $500	.5	.4	.6	.7	.3	.5	3.6
$500 to $1,000	.5	.7	.4	1.0	.6	.4	3.8
$1,000 to $5,000	.4	.6	.4	1.1	.7	.4	3.5
$5,000 to $10,000	.3	.2	.3	.8	.1	.2	3.0
$10,000 to $50,000	.4	.5	.3	1.9	.1	.2	2.2
$50,000 to $100,000	.2	.2	.3	.3	(3)	.2	2.3
Over $100,000	.2	.3	.1	3.0	(3)	.2	3.7
	Interest paid as percent of corporate receipts						
Under $50	0.4	1.2	0.3	0.7	0.3	0.9	1.6
$50 to $100	.5	1.2	.4	2.2	.4	1.0	2.5
$100 to $250	.6	1.5	.4	4.1	.5	1.6	5.5
$250 to $500	.6	1.6	.4	7.5	.4	3.0	12.2
$500 to $1,000	.6	2.2	.4	8.6	.5	3.7	11.3
$1,000 to $5,000	.5	2.2	.5	8.2	.4	7.0	9.0
$5,000 to $10,000	.6	3.0	.3	14.6	.6	8.8	8.4
$10,000 to $50,000	.7	2.2	.5	9.3	.9	10.3	6.1
$50,000 to $100,000	.9	3.5	.3	8.4	(3)	12.9	6.2
Over $100,000	.5	2.9	.3	2.7	(3)	11.9	12.4
	Taxes paid as percent of corporate receipts						
Under $50	0.7	0.9	0.6	1.5	0.6	1.9	6.6
$50 to $100	.9	.8	.6	2.8	1.1	2.5	7.4
$100 to $250	1.2	1.1	.6	4.2	1.1	3.1	10.1
$250 to $500	1.5	1.1	.7	6.8	.8	3.8	12.5
$500 to $1,000	2.1	1.0	.8	7.7	.9	3.9	9.9
$1,000 to $5,000	2.1	1.0	.7	7.3	1.0	5.1	7.8
$5,000 to $10,000	2.2	1.1	.7	10.6	1.3	5.6	5.9
$10,000 to $50,000	2.6	1.0	1.1	6.9	1.7	6.8	10.6
$50,000 to $100,000	2.3	4.5	.9	4.4	(3)	7.4	3.0
Over $100,000	1.4	8.5	.9	.3	(3)	7.4	4.5
	Depreciation as percent of corporate receipts						
Under $50	1.4	4.7	0.6	2.6	1.0	5.0	1.2
$50 to $100	1.5	4.9	.6	4.2	1.6	5.6	1.8
$100 to $250	1.5	5.1	.6	5.2	1.8	5.8	3.0
$250 to $500	1.7	5.7	.5	7.2	2.1	6.4	4.7
$500 to $1,000	1.8	5.2	.6	8.1	2.8	6.9	4.1
$1,000 to $5,000	2.2	5.9	.6	7.6	3.2	8.7	3.0
$5,000 to $10,000	2.4	5.9	.7	10.9	2.9	9.8	1.9
$10,000 to $50,000	2.7	5.7	1.0	7.0	2.1	10.8	1.4
$50,000 to $100,000	2.9	6.7	.7	4.5	(3)	9.1	.9
Over $100,000	2.6	4.2	.7	.2	(3)	6.6	1.7

See footnotes at end of table.

TABLE 7.—*Statutory deductions as percent of total corporate receipts, 1936, by size of corporations and industries*—Continued

[All corporation income-tax returns subject to the 1936 Revenue Act]

Size classes based on total assets (in thousands)	Manufacturing (including miscellaneous manufacturing)	Mining	Trade	Service	Construction	Public utilities	Finance
	Depletion as percent of corporate receipts						
Under $50	(4)	3.7	(4)	(4)	(4)	(4)	(4)
$50 to $100	(4)	4.0	(4)	(4)	(4)	(4)	(4)
$100 to $250	(4)	4.5	(4)	(4)	0.1	(4)	(4)
$250 to $500	(4)	6.3	(4)	(4)	(4)	0.1	(4)
$500 to $1,000	0.1	6.4	(4)	(4)	.1	.1	(4)
$1,000 to $5,000	.1	7.6	(4)	(4)	(4)	.1	(4)
$5,000 to $10,000	.2	9.0	(4)	(4)	(5)	.4	(4)
$10,000 to $50,000	.2	7.2	(4)	(4)	(4)	.3	(4)
$50,000 to $100,000	.6	11.7	(4)	(4)	(3)	.2	(4)
Over $100,000	.7	6.8	(4)	(4)	(3)	.1	(4)
	Net capital loss as percent of corporate receipts						
Under $50	0.1	0.1	(4)	0.1	0.6	0.7	0.1
$50 to $100	(4)	.1	(4)	.1	.4	.1	.1
$100 to $250	.1	.3	(4)	.1	.3	.2	.2
$250 to $500	(4)	1.1	(4)	.2	.1	.1	.5
$500 to $1,000	(4)	.4	(4)	.2	.1	(4)	1.0
$1,000 to $5,000	(4)	.4	(4)	.2	.2	(4)	.5
$5,000 to $10,000	(4)	.3	(4)	(4)	(4)	(4)	.3
$10,000 to $50,000	(4)	.2	(4)	(4)	(4)	(4)	.1
$50,000 to $100,000	(4)	(4)	(4)	(5)	(3)	(4)	.1
Over $100,000	(4)	(4)	(4)	(5)	(3)	(4)	(4)
	Other deductions as percent of corporate receipts						
Under $50	13.1	23.0	10.9	30.7	14.7	27.6	15.4
$50 to $100	12.7	18.7	11.1	35.5	12.3	22.2	12.9
$100 to $250	12.4	15.2	12.1	35.2	11.7	19.1	18.2
$250 to $500	12.9	13.6	13.3	39.7	11.3	14.0	27.0
$500 to $1,000	12.9	13.7	13.7	41.3	10.3	14.1	31.1
$1,000 to $5,000	13.4	14.1	14.3	40.1	12.6	13.5	32.3
$5,000 to $10,000	13.2	11.7	14.9	37.9	13.6	11.6	43.9
$10,000 to $50,000	13.6	12.3	16.4	39.2	4.0	13.0	49.6
$50,000 to $100,000	14.8	14.1	25.0	15.4	(3)	12.1	30.7
Over $100,000	9.7	8.6	17.5	26.6	(3)	11.7	28.6

[1] Includes income-tax returns with fiscal year ending July–November 1936.
[2] All reported as "cost of operations."
[3] No corporation.
[4] Less than 0.05 percent.
[5] No deduction claimed.

Source: Computed from the Sourcebook of the Statistical Section of the Bureau of Internal Revenue.

TABLE 7.—*Statutory deductions as percent of total corporate receipts, 1936, by size of corporations and industries*—Continued

[All corporation income tax returns subject to the 1936 Revenue Act]

PART II. MANUFACTURING INDUSTRIES

Size classes based on total assets (in thousands)	Food	Beverages	Tobacco	Textiles	Clothing	Leather	Rubber	Forest products	Paper	Printing	Chemicals	Petroleum	Stone, clay, and glass	Metals	Motor vehicles
	Cost of goods sold as percent of corporate receipts														
Under $50	78.2	62.0	72.8	74.5	74.7	78.8	67.4	76.0	71.3	49.4	62.8	71.2	66.6	67.2	73.3
$50 to $100	79.1	62.7	71.6	78.1	81.9	81.3	73.4	76.9	74.2	53.6	66.3	79.8	65.9	71.4	73.7
$100 to $250	77.5	65.6	77.2	80.9	82.7	83.4	74.6	77.1	73.7	56.8	67.6	78.5	68.6	71.2	73.4
$250 to $500	80.1	55.3	74.0	82.6	81.9	84.6	73.6	76.5	72.7	64.9	67.0	80.1	69.8	71.2	73.9
$500 to $1,000	80.6	45.7	71.5	81.7	79.6	83.1	73.2	76.4	74.1	65.5	64.1	83.6	67.4	71.5	72.5
$1,000 to $5,000	90.4	47.1	74.8	81.8	78.8	81.1	74.8	72.3	73.1	61.9	60.9	77.7	64.7	69.2	80.1
$5,000 to $10,000	80.1	49.0	71.5	80.9	78.8	83.8	71.4	67.8	66.3	62.7	58.0	68.3	57.3	68.9	82.8
$10,000 to $50,000	71.8	57.7	45.7	73.8	63.7	87.3	70.7	63.3	69.3	57.4	60.8	75.9	58.1	69.6	79.1
$50,000 to $100,000	67.0	56.9	74.2	75.8	(3)	(3)	66.7	63.9	74.4	40.6	59.7	59.8	58.1	69.2	81.6
Over $100,000	83.6	(3)	80.2	(3)	(3)	(3)	63.3	52.5	47.2	61.3	57.5	65.2	71.5	71.1	83.7
	Cost of operations as percent of corporate receipts														
Under $50	2.6	2.1	2.5	4.1	7.1	2.2	5.4	2.4	0.9	12.8	1.0	2.3	3.0	3.8	1.0
$50 to $100	.9	1.0	4.7	2.5	1.1	1.1	.1	.9	.2	10.0	.8	.8	2.6	1.2	2.9
$100 to $250	1.1	.2	(5)	1.3	.4	.2	(5)	.6	.9	7.2	.4	1.4	2.0	.8	(4)
$250 to $500	.3	.4	(5)	.5	.3	(5)	(5)	.4	.8	.3	.4	.1	.1	.1	(5)
$500 to $1,000	.2	(5)	(5)	.3	(4)	(4)	(5)	.1	.2	.3	.7	(4)	1.1	.2	.3
$1,000 to $5,000	.6	(5)	(5)	.5	(4)	.1	(5)	.6	(4)	.1	.4	1.5	(4)	.1	(5)
$5,000 to $10,000	(5)	(5)	(5)	(5)	(5)	(5)	(5)	1.1	.2	.2	.1	1.8	(4)	(4)	(5)
$10,000 to $50,000	.1	(5)	.3	.3	(5)	(5)	(5)	3.4	(4)	(5)	(5)	.1	(5)	.1	(5)
$50,000 to $100,000	(5)	(5)	(5)	(5)	(3)	(3)	(5)	(5)	(5)	(5)	(5)	3.2	(5)	(5)	(5)
Over $100,000	(4)	(3)	(5)	(3)	(3)	(3)	(5)	1.0	(5)	(5)	(5)	1.8	(5)	(4)	(5)
	Compensation of officers as percent of corporate receipts														
Under $50	4.3	6.9	7.8	8.2	6.2	7.5	8.5	7.7	9.1	12.9	10.5	6.6	9.7	10.8	7.9
$50 to $100	3.4	5.3	4.6	5.5	4.1	4.9	6.2	5.4	6.3	9.4	6.7	1.9	7.6	7.6	6.5
$100 to $250	2.7	3.1	4.2	3.9	3.3	3.6	4.9	4.4	4.8	7.4	4.7	2.7	5.4	5.6	4.3
$250 to $500	2.0	2.7	3.6	2.7	2.7	2.8	3.7	3.3	3.8	5.3	4.0	1.6	3.9	4.1	3.4
$500 to $1,000	1.5	2.3	3.0	2.2	2.4	2.0	2.8	2.3	2.5	3.9	2.8	.9	3.1	2.9	2.0
$1,000 to $5,000	1.0	1.2	1.5	1.4	1.7	1.6	1.4	1.6	1.7	2.6	1.9	.9	2.1	1.9	1.0

$5,000 to $10,000	.5	1.0	1.5	.9	.8	1.0	.7	1.2	1.2	1.2	1.6	.4	1.3	1.2	.8
$10,000 to $50,000	.5	.8	.5	.7	.8	.8	.9	.7	.9	1.1	.8	.3	1.0	.7	.4
$50,000 to $100,000	.6	.8	.3	.6	(3)	(3)	(5)	.6	.8	.6	.5	.1	.3	.5	.2
Over $100,000	.2	(3)	.2	(3)	(3)	(3)	.3	.4	2.1	(5)	.2	.1	.3	.3	.1
Rent paid as percent of corporate receipts															
Under $50	1.3	1.2	2.0	2.1	1.9	1.6	1.1	1.6	2.7	2.9	2.1	1.0	1.8	2.0	2.2
$50 to $100	.7	.9	1.0	1.1	1.1	1.0	.8	.8	2.0	2.1	1.0	.2	.7	1.0	1.2
$100 to $250	.6	.5	.7	.8	1.0	.8	.9	.5	1.2	1.7	.7	.4	.5	.7	.8
$250 to $500	.4	.5	.5	.4	.7	.5	.7	.4	.8	1.5	.5	.2	.4	.4	.6
$500 to $1,000	.3	.2	.5	.3	.8	.4	.3	.4	.5	1.2	.4	.3	.2	.3	.3
$1,000 to $5,000	.4	.2	.2	.2	.8	.6	.2	.3	.3	1.1	.4	.4	.3	.2	.3
$5,000 to $10,000	.3	.1	.2	.2	.7	.8	.4	.3	.4	.9	.3	.7	.7	.2	.5
$10,000 to $50,000	.5	.2	.2	.2	2.9	.1	.1	.3	.4	1.6	.3	.8	.2	.2	.5
$50,000 to $100,000	.4	.1	.1	.1	(3)	(3)	.5	.2	.2	.4	1.1	.7	.4	1.0	.3
Over $100,000	.2	(3)	.1	(3)	(3)	(3)	.5	.1	3.8	1.9	.1	.7	.2	.6	(4)
Bad debts as percent of corporate receipts															
Under $50	0.4	0.5	0.6	0.4	0.3	0.4	0.8	0.7	0.6	1.0	0.9	0.5	0.9	0.8	0.8
$50 to $100	.4	.6	.5	.3	.3	.4	.5	.8	.4	.9	.7	.2	.8	.6	.5
$100 to $250	.4	.5	.7	.3	.3	.4	.3	.9	.3	1.0	.8	.6	.7	.6	.5
$250 to $500	.3	.8	.5	.3	.3	.3	.7	.8	.4	.8	.6	.8	.6	.5	.5
$500 to $1,000	.3	.6	.7	.2	.3	.3	.4	1.0	.5	.8	1.2	.2	.6	.4	.3
$1,000 to $5,000	.2	.8	.1	.1	.5	.2	.3	.9	.2	.8	.5	.3	.8	.5	.2
$5,000 to $10,000	.1	.3	.1	.1	.2	.2	.6	.7	.2	.6	.4	.4	.5	.3	.2
$10,000 to $50,000	.2	.3	.1	.2	(4)	19.2	.1	.8	.5	.6	.3	.2	.2	.4	.1
$50,000 to $100,000	.1	.1	.1	.1	(3)	(3)	.2	(4)	1.2	.1	.1	.1	.5	.2	(4)
Over $100,000	.3	(3)	(5)	(3)	(3)	(3)	.4	.2	.1	.5	.1	.2	(4)	.3	.1
Interest paid as percent of corporate receipts															
Under $50	0.3	0.4	0.5	0.5	0.2	0.3	0.4	0.6	0.4	0.5	0.5	0.8	0.7	0.5	0.5
$50 to $100	.5	.5	.5	.6	.3	.5	.4	.8	.4	.6	.6	.3	1.1	.6	.7
$100 to $250	.5	.6	.5	.6	.3	.4	.5	.9	.5	.8	.5	.5	.9	.6	.7
$250 to $500	.5	.7	.6	.6	.4	.5	.4	.8	.5	.7	.5	.8	.9	.5	.7
$500 to $1,000	.5	.7	.5	.7	.3	.5	.5	.8	.6	.9	.5	.6	1.5	.6	.7
$1,000 to $5,000	.5	.6	.2	.7	.3	.5	.6	1.2	.8	.7	.3	.5	1.1	.4	.5
$5,000 to $10,000	.3	.8	.4	.9	.1	.4	.3	1.4	.9	1.1	.7	.7	.6	.6	.2
$10,000 to $50,000	.5	.4	.2	.4	.1	.2	(4)	2.6	1.9	.9	.7	.8	1.1	.9	.5
$50,000 to $100,000	.7	.8	1.1	.2	(3)	(3)	.1	1.2	17.9	1.9	.4	1.3	(4)	1.6	(4)
Over $100,000	.2	(3)	.3	(3)	(3)	(3)	2.0	(4)	4.5	5.7	.8	.5	(4)	1.1	(4)

See footnotes at end of table.

TABLE 7.—*Statutory deductions as percent of total corporate receipts, 1936, by size of corporations and industries*—Continued

Size classes based on total assets (in thousands)	Food	Beverages	Tobacco	Textiles	Clothing	Leather	Rubber	Forest products	Paper	Printing	Chemicals	Petroleum	Stone, clay, and glass	Metals	Motor vehicles
	Taxes paid as percent of corporate receipts														
Under $50	0.6	2.7	2.3	0.5	0.4	0.5	0.7	0.8	0.6	0.8	1.1	3.8	1.0	0.8	1.0
$50 to $100	.7	3.5	6.7	.6	.4	.7	.8	1.0	.7	1.0	1.0	1.0	1.3	1.0	1.1
$100 to $250	.8	8.0	3.8	.8	.5	.6	.9	1.1	.9	1.1	1.1	2.3	1.4	1.1	1.2
$250 to $500	.8	13.2	2.1	1.0	.5	.7	1.0	1.4	1.0	1.3	1.4	.8	1.5	1.2	1.4
$500 to $1,000	.7	22.2	3.5	1.1	.6	.8	1.5	1.5	1.3	1.4	1.5	1.7	1.5	1.2	1.3
$1,000 to $5,000	1.2	17.5	2.3	1.3	.8	1.0	1.9	1.8	1.4	1.3	2.0	.8	1.7	1.3	1.0
$5,000 to $10,000	1.3	22.7	2.0	1.4	.7	1.0	3.5	2.2	1.8	1.6	1.8	.9	1.8	1.3	1.1
$10,000 to $50,000	1.5	13.4	27.8	1.5	1.7	.8	3.3	2.2	1.8	2.5	1.9	2.6	1.8	1.6	1.0
$50,000 to $100,000	3.2	1.0	.6	1.2	(3)	(3)	5.2	2.8	2.1	1.9	6.3	4.4	.8	1.8	.7
Over $100,000	1.2	(3)	.9	(3)	(3)	(3)	6.3	3.3	2.4	3.4	1.5	2.5	1.2	1.8	.4
	Depreciation as percent of corporate receipts														
Under $50	1.7	2.4	0.9	1.0	0.4	0.7	1.4	1.4	1.6	2.3	1.2	2.5	2.6	1.7	1.2
$50 to $100	1.8	2.2	.7	1.1	.3	1.0	1.9	1.5	1.7	2.2	1.4	2.2	3.2	1.8	1.5
$100 to $250	1.8	2.1	.8	1.4	.3	.7	1.9	1.6	1.8	2.1	1.4	2.0	3.1	1.9	1.6
$250 to $500	1.5	2.6	1.0	1.6	.4	.7	2.1	1.9	1.9	2.0	1.6	2.8	3.2	2.0	2.0
$500 to $1,000	1.4	2.5	1.0	2.1	.5	.8	2.4	2.2	2.3	2.2	1.8	3.1	3.3	2.1	1.6
$1,000 to $5,000	1.7	2.2	1.0	2.4	.7	.9	2.7	2.9	3.5	2.1	2.0	3.0	5.2	2.4	1.5
$5,000 to $10,000	1.6	1.5	.9	3.1	.7	.9	2.2	3.4	4.2	2.0	2.2	3.0	4.8	2.7	3.1
$10,000 to $50,000	2.2	1.4	.8	2.9	.9	1.7	2.7	4.6	4.2	1.9	3.6	3.4	4.9	2.9	2.7
$50,000 to $100,000	14.2	2.0	.7	4.0	(3)	(3)	(4)	4.8	5.3	1.4	2.8	5.5	3.8	5.2	1.5
Over $100,000	1.3	(3)	.4	(3)	(3)	(3)	2.3	6.2	4.0	2.7	2.5	5.0	.1	4.3	1.0
	Depletion as percent of corporate receipts														
Under $50	(4)	(4)	(5)	(4)	(4)	(4)	(4)	0.1	(4)	(4)	(4)	(4)	(4)	(4)	(4)
$50 to $100	(4)	(4)	(5)	(4)	(4)	(5)	(5)	.1	(5)	(4)	.1	(4)	.1	(4)	(5)
$100 to $250	(4)	(4)	(5)	(4)	(4)	(4)	(5)	.3	(4)	(4)	(4)	.1	(4)	(4)	(5)
$250 to $500	(4)	(4)	(5)	(4)	(5)	(4)	(5)	.6	(5)	(5)	(4)	.2	.1	(4)	(5)
$500 to $1,000	(5)	(5)	(5)	(5)	(4)	(5)	(5)	.8	(4)	(5)	(4)	.6	.1	(4)	(5)
$1,000 to $5,000	(4)	(5)	(5)	(5)	(4)	(5)	(5)	2.4	.1	(5)	.1	.7	.1	(4)	(5)
$5,000 to $10,000	(4)	(5)	(5)	(5)	(5)	(5)	(5)	3.4	.1	(5)	.3	1.6	.5	(4)	(5)

$10,000 to $50,000	(4)	(5)	(5)	(5)	(5)	(5)	(5)	6.2	.4	(5)	.2	1.2	1.0	.1	(5)
$50,000 to $100,000	(5)	(5)	(5)	(5)	(3)	(3)	(5)	(5)	(5)	(5)	(4)	4.0	.1	.6	(5)
Over $100,000	(5)	(3)	(5)	(3)	(3)	(3)	(5)	5.1	.5	(5)	(4)	3.0	3.2	.1	(4)
	Net capital loss as percent of corporate receipts														
Under $50	0.1	(4)	0.1	0.1	(4)	(4)	(4)	0.1	(4)	0.1	0.1	0.1	0.1	0.1	(4)
$50 to $100	(4)	(4)	.1	(4)	0.1	(4)	.1	.1	(4)	.1	(4)	(4)	.1	.1	(4)
$100 to $250	(4)	(4)	.1	(4)	(4)	(4)	(4)	(4)	(4)	.1	(4)	(4)	.1	(4)	(4)
$250 to $500	(4)	(4)	.1	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	.3
$500 to $1,000	(4)	(4)	.1	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	.1	(4)	(4)
$1,000 to $5,000	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	.1	(4)	(4)	(4)
$5,000 to $10,000	(4)	(4)	(5)	(4)	(4)	(4)	(4)	.1	(4)	(4)	(4)	(4)	(4)	(4)	(4)
$10,000 to $50,000	(4)	(4)	(4)	(4)	(5)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)
$50,000 to $100,000	(4)	(5)	(5)	(4)	(3)	(3)	(4)	(5)	(4)	(5)	(4)	(4)	(5)	(4)	(4)
Over $100,000	(4)	(3)	(5)	(3)	(3)	(3)	(5)	(5)	(5)	(4)	(4)	(4)	(4)	(4)	(5)
	Other deductions as percent of corporate receipts														
Under $50	11.3	16.5	13.5	10.2	10.0	10.0	14.2	10.6	13.1	18.4	22.1	14.3	15.1	12.9	14.2
$50 to $100	11.7	17.1	10.4	10.0	10.0	9.2	14.3	11.8	12.6	18.0	18.7	13.3	15.3	12.3	10.7
$100 to $250	11.6	13.9	10.6	8.7	10.1	8.7	12.3	11.0	12.6	18.1	18.1	8.2	13.9	12.9	15.5
$250 to $500	11.7	17.8	16.5	8.4	10.8	8.3	12.5	11.4	13.4	18.0	17.4	9.4	15.6	14.0	14.6
$500 to $1,000	11.4	17.4	17.2	8.1	11.8	9.0	14.9	10.8	18.0	18.0	19.0	6.2	15.8	14.1	12.1
$1,000 to $5,000	14.0	18.7	12.4	8.2	12.8	9.3	11.5	11.6	20.4	20.4	20.8	9.9	15.9	14.9	9.6
$5,000 to $10,000	11.6	13.2	17.8	8.4	10.6	7.2	14.6	13.1	16.1	16.1	20.6	12.9	18.9	14.5	6.4
$10,000 to $50,000	16.2	14.6	13.4	11.7	18.3	6.6	14.8	14.5	19.6	19.6	16.8	13.8	13.7	13.3	9.7
$50,000 to $100,000	15.8	8.6	18.0	9.0	(3)	(3)	20.3	10.3	7.7	36.7	21.7	18.2	19.0	15.7	6.2
Over $100,000	9.1	(3)	5.9	(3)	(3)	(3)	21.5	13.6	32.0	21.0	12.5	16.0	9.9	11.4	4.7

[3] No corporation.
[4] Less than 0.05 percent.
[5] No deduction claimed.

Source: Computed from the Sourcebook of the Statistical Section of the Bureau of Internal Revenue.

TABLE 8.—*Deductions for prior years' losses as percent of taxable net income, by industries, 1922–32* [1]

[Net returns only]

	1922	1923	1924	1925	1926	1927	1928	1929	1930	1931	1932
Manufacturing	9.3	8.2	2.7	2.5	2.2	2.5	2.5	3.8	1.8	3.4	4.3
Food and beverages	7.6	10.3	3.6	1.8	1.6	2.0	2.7	2.3	1.4	3.6	8.2
Textiles	6.8	6.1	2.3	6.5	3.1	8.2	3.9	3.5	3.6	13.1	7.1
Leather	12.0	6.7	4.2	4.9	3.8	7.1	2.2	1.8	1.4	4.3	3.6
Rubber	55.6	51.1	19.9	1.8	2.2	5.8	3.1	1.9	6.3	17.1	21.0
Forest products	11.7	8.5	2.4	2.9	3.2	3.6	5.9	5.5	5.7	10.3	7.5
Paper	10.1	13.1	6.3	1.7	2.9	2.5	1.7	2.3	1.6	2.6	2.8
Printing	2.4	2.0	1.4	1.7	1.9	2.0	1.9	1.8	1.5	2.1	3.9
Chemicals	5.8	5.3	2.0	2.6	2.4	1.7	1.7	1.8	.8	1.9	3.3
Stone, clay, and glass	3.2	6.0	1.8	1.3	1.2	1.1	2.0	1.9	2.7	4.1	3.1
Metals	13.1	9.5	2.0	1.9	1.7	1.0	2.2	5.5	2.2	3.0	3.1
Mining	10.6	12.7	3.8	5.5	5.6	4.5	5.8	4.8	4.5	8.8	13.8
Trade	9.6	7.6	2.7	2.7	3.0	3.4	3.4	3.7	3.1	4.2	5.2
Service	2.1	3.9	3.2	3.5	4.3	4.6	5.4	5.4	4.2	5.9	5.9
Construction	6.3	17.0	7.6	5.6	5.7	5.7	6.4	6.4	6.8	11.2	13.3
Public utilities	1.8	2.5	2.3	1.2	.9	.8	1.6	2.3	1.0	1.2	.8
Finance	2.2	2.7	3.0	2.1	2.8	3.4	3.2	2.2	4.0	5.7	7.1

[1] The deduction of prior years' losses expired with the year 1932.

Source: Computed from Statistics of Income.

TABLE 9.—*Deductions for prior years' loss as percent of taxable net income, 1931–32, by size, classes and industries*

[Net income returns only]

PART I. 1931 (2-YEAR CARRY-OVER PERMITTED)

	Size classes (based on total assets in thousands)									
	Under $50	$50–$100	$100–$250	$250–$500	$500–$1,000	$1,000–$5,000	$5,000–$10,000	$10,000–$50,000	Over $50,000	Total
Manufacturing (including miscellaneous manufacturing)	8.7	10.2	8.8	5.5	6.3	4.5	3.8	3.1	1.0	3.2
Food and beverages	4.0	7.9	6.3	4.5	6.1	2.7	.8	5.7	2.5	3.5
Tobacco	5.8	27.4	6.3	2.2	(1)	.4	(1)	(1)	(1)	.1
Textiles	13.7	15.0	14.5	12.6	12.2	10.3	34.8	10.2	(1)	12.5
Leather	12.5	27.6	22.7	16.3	9.6	3.3	4.7	(1)	(1)	4.0
Rubber	4.1	5.1	47.5	3.8	30.9	16.2	40.6	(2)	13.2	15.3
Forest products	16.5	12.1	11.3	10.7	9.6	5.0	22.5	60.2	(2)	10.0
Paper	3.4	6.6	6.4	4.6	1.8	2.4	2.1	2.4	(1)	2.6
Printing	7.4	2.9	4.6	4.3	2.6	3.7	(1)	.7	(1)	2.0
Chemicals	8.0	8.1	11.7	8.7	7.0	4.1	1.1	.6	(3)	1.8
Stone, clay, and glass	8.5	8.8	7.8	8.3	5.8	3.4	9.3	1.3	9.4	4.1
Metals	11.5	13.3	7.2	5.9	6.2	3.4	6.6	3.9	1.4	3.0
Mining	13.4	8.3	12.3	12.2	9.6	10.1	13.0	3.6	4.8	8.5
Trade	7.9	10.6	9.1	6.8	6.6	6.6	.4	1.4	.1	4.0
Service	8.5	10.0	7.0	5.3	4.6	1.0	18.3	13.6	(1)	5.8
Construction	18.8	20.6	17.4	12.7	12.9	5.1	4.8	9.9	(1)	11.2
Public utilities	7.0	8.8	7.5	3.7	1.4	3.3	1.2	3.2	.4	1.2
Finance	6.7	6.4	6.3	8.4	10.0	8.3	6.6	2.0	3.8	5.7
All corporations (including agriculture and miscellaneous)	8.6	9.9	8.8	7.6	7.3	5.7	3.6	3.1	1.1	3.6

[1] No loss claimed.
[2] No corporation.
[3] Less than 0.05 percent.

TABLE 9.—*Deductions for prior years' loss as percent of taxable net income, 1931–32 by size, classes and industries*—Continued

PART II. 1932 (1-YEAR CARRY-OVER PERMITTED)

	Size classes (based on total assets in thousands)									
	Under $50	$50–$100	$100–$250	$250–$500	$500–$1,000	$1,000–$5,000	$5,000–$10,000	$10,000–$50,000	Over $50,000	Total
Manufacturing (including miscellaneous manufacturing)	21.5	13.4	8.6	4.5	4.2	3.3	1.6	1.6	5.4	4.3
Food and beverages	12.0	8.7	4.6	2.9	3.6	1.7	2.4	3.5	14.6	8.2
Tobacco	7.8	13.3	1.5	7.0	12.2	.1	(1)	(1)	(1)	(1)
Textiles	25.3	17.5	10.9	5.2	8.9	8.9	2.0	2.7	(1)	7.1
Leather	16.7	20.0	13.0	6.4	2.1	11.1	(1)	(1)	(1)	3.5
Rubber	21.9	5.7	12.3	5.4	21.4	2.7	78.0	(2)	19.8	21.0
Forest products	33.2	27.4	11.0	10.5	4.1	1.6	(1)	(2)	(2)	7.5
Paper	8.9	10.6	5.4	3.5	.3	3.5	3.5	(1)	(1)	2.8
Printing	25.2	7.0	5.7	3.8	3.9	4.2	(1)	6.7	(1)	3.9
Chemicals	15.4	8.5	7.3	3.7	2.1	1.4	1.0	.2	6.5	3.3
Stone, clay, and glass	31.8	15.9	9.4	11.0	10.7	.3	(1)	(1)	(1)	2.9
Metals	34.7	22.4	16.4	6.6	4.3	5.3	.7	(1)	(1)	2.9
Mining	16.4	18.4	8.9	11.1	7.8	7.5	3.1	.1	91.6	13.9
Trade	20.2	13.7	8.5	6.0	6.4	2.4	4.6	2.3	2.5	5.0
Service	16.1	12.5	5.7	4.3	3.1	4.9	(1)	2.0	(1)	4.9
Construction	45.7	30.9	18.3	8.0	10.7	5.4	(1)	15.1	(2)	13.3
Public utilities	9.4	5.8	4.5	3.8	4.5	1.3	1.4	.1	.6	.8
Finance	11.9	7.9	7.9	8.9	10.9	11.0	7.5	8.5	6.6	6.5
All corporations (including agriculture and miscellaneous)	18.0	12.6	8.3	6.3	6.5	4.6	2.8	2.4	2.7	4.0

[1] No loss claimed.
[2] No corporation.

Source: Computed from the Sourcebook of the Statistical Section of the Bureau of Internal Revenue.
Definition of terms: *Taxable net income* is the excess of receipts over deductions less tax-exempt income (i. e., intercorporate dividends and interest on government securities) before the deduction for prior years' losses.

TABLE 10.—*Consolidated returns in Federal corporate income taxation; number of returns, gross income, net income, and Federal tax, by industries, 1928–36*

PART I. NUMBER OF CONSOLIDATED RETURNS AND SUBSIDIARIES

	1928	1929	1930	1931	1932	1933	1934	1935	1936
Manufacturing (including miscellaneous)	3,237	3,216	3,277	3,093	2,542	2,455	201	--------	--------
Food				431	352	308	33	--------	--------
Beverages	502	498	488			53	5	--------	--------
Tobacco				20	15	15	--------	--------	--------
Textiles	357	363	384	365	300	287	41	--------	--------
Leather	100	96	98	96	69	75	8	--------	--------
Rubber	54	43	48	41	37	38	6	--------	--------
Forest products	289	278	282	253	206	195	7	--------	--------
Paper	105	105	107	96	84	85	5	--------	--------
Printing	227	228	253	257	224	213	4	--------	--------
Chemicals	405	398	409	382	308	298	26	--------	--------
Stone, clay, and glass	130	140	136	145	100	102	3	--------	--------
Metals	830	844	837	795	661	642	54	--------	--------
Mining	526	509	502	469	425	397	7	--------	--------
Trade	1,731	1,450	1,520	1,445	1,278	1,135	66	--------	--------
Service	549	554	582	526	551	533	41	--------	--------
Construction	198	194	187	182	176	169	2	--------	--------
Public utilities	789	806	789	774	637	639	76	63	98
Finance	2,121	1,907	1,982	1,895	1,707	1,665	50	--------	--------
All corporations (including miscellaneous)	9,300	8,754	8,951	8,495	7,426	7,101	445	63	98
Number of subsidiaries	(1)	30,112	32,209	31,307	29,232	28,589	2,522	(1)	(1)
All active returns	443,611	456,021	463,036	459,704	451,884	446,842	469,804	477,113	478,857
Consolidates returns as percent of all returns	2.1	1.9	1.9	1.8	1.6	1.6	.1	(2)	(2)

[1] Not available.
[2] Less than 0.05 percent.

TABLE 10.—*Consolidated returns in Federal corporate income taxation; number of returns, gross income, net income and Federal tax, by industries, 1928–36*—Con.

PART II. GROSS INCOME REPORTED ON CONSOLIDATED RETURNS AS PERCENT OF TOTAL GROSS INCOME REPORTED ON ALL RETURNS

	1928	1929	1930	1931	1932	1933	1934	1935	1936
Manufacturing (including miscellaneous)	52.7	57.2	60.0	56.7	49.2	46.3	7.6	-------	-------
Food						52.1	23.7	-------	-------
Beverages	59.4	62.0	63.3	61.2	53.7	22.2	.7	-------	-------
Tobacco				35.0	9.5	9.0	-------	-------	-------
Textiles	20.7	23.1	23.4	23.3	15.9	15.5	1.3	-------	-------
Leather	38.7	43.1	43.6	44.1	23.9	21.0	2.3	-------	-------
Rubber	79.7	81.7	84.2	82.6	82.8	77.6	26.3	-------	-------
Forest products	26.7	26.8	28.8	63.3	26.1	27.4	1.7	-------	-------
Paper	40.0	42.0	43.2	36.0	33.9	31.7	2.4	-------	-------
Printing	32.7	33.2	33.4	34.6	28.3	27.9	(1)	-------	-------
Chemicals	69.3	78.6	85.2	79.2	76.6	70.6	3.4	-------	-------
Stone, clay, and glass	35.0	40.0	42.5	45.5	31.7	31.1	-------	-------	-------
Metals	62.7	67.3	66.5	65.7	57.9	57.4	1.6	-------	-------
Mining	54.1	57.1	58.3	60.8	56.1	59.3	(1)	-------	-------
Trade	21.3	22.0	25.7	27.6	21.5	19.1	1.3	-------	-------
Service	25.6	27.8	79.0	34.3	27.8	26.6	11.4	-------	-------
Construction	10.3	14.6	15.3	15.0	15.5	13.7	.1	-------	-------
Public utilities	80.7	83.0	84.1	84.9	68.9	68.9	5.5	5.4	18.1
Finance	45.1	20.8	19.8	21.7	19.0	17.1	(1)	-------	-------
All corporations (including miscellaneous)	45.6	43.6	47.6	46.7	39.6	37.9	-------	-------	-------

PART III. TAXABLE NET INCOME REPORTED ON CONSOLIDATED RETURNS AS PERCENT OF THE TOTAL TAXABLE NET INCOME REPORTED ON ALL NET RETURNS

	1928	1929	1930	1931	1932	1933	1934	1935	1936
Manufacturing (including miscellaneous)	53.4	58.4	60.3	55.6	23.1	29.8	-------	-------	-------
Food						-------	-------	-------	-------
Beverages	50.7	54.8	56.0	66.1	31.0	26.8	7.0	-------	-------
Tobacco				26.1	3.2	6.2	-------	-------	-------
Textiles	40.6	31.6	31.3	30.5	7.1	13.2	1.6	-------	-------
Leather	49.2	53.5	64.4	70.8	13.5	17.2	1.1	-------	-------
Rubber	55.7	64.4	52.1	69.8	45.2	41.4	3.6	-------	-------
Forest products	30.6	27.1	17.6	17.8	3.2	23.6	.8	-------	-------
Paper	31.7	39.2	37.0	20.4	5.2	15.3	.6	-------	-------
Printing	35.9	34.6	26.9	25.0	13.1	16.1	(1)	-------	-------
Chemicals	64.1	78.2	78.3	64.2	37.4	36.9	.4	-------	-------
Stone, clay, and glass	41.9	44.9	48.1	52.5	1.2	18.4	(1)	-------	-------
Metals	62.4	64.7	66.7	72.1	26.9	52.2	.9	-------	-------
Mining	54.4	56.4	47.7	27.2	17.6	14.3	(1)	-------	-------
Trade	30.4	30.5	37.4	48.2	23.7	19.4	1.3	-------	-------
Service	28.6	36.3	39.2	27.9	18.2	18.9	7.8	-------	-------
Construction	16.0	21.5	16.7	11.1	7.3	1.5	.1	-------	-------
Public utilities	78.6	79.6	78.1	74.0	32.7	38.8	1.2	0.6	8.3
Finance	20.7	21.1	19.0	15.1	4.6	10.7	(1)	-------	-------
All corporations (including miscellaneous)	47.6	51.1	52.5	50.1	23.3	27.9	1.6	-------	-------

PART IV. FEDERAL CORPORATE INCOME TAXES REPORTED ON CONSOLIDATED RETURNS AS PERCENT OF TOTAL FEDERAL CORPORATE INCOME TAXES REPORTED ON ALL RETURNS

	1928	1929	1930	1931	1932	1933	1934	1935	1936
Manufacturing (including miscellaneous)	54.6	58.9	61.8	57.7	22.2	30.5	5.0	-------	-------
Food						27.8	17.0	-------	-------
Beverages	51.9	52.3	57.5	68.4	27.2	27.3	.2	-------	-------
Tobacco				26.1	3.3	5.7	-------	-------	-------
Textiles	30.4	32.7	35.3	34.9	8.2	13.4	15.7	-------	-------
Leather	51.4	57.1	67.6	75.7	12.9	18.0	7.0	-------	-------
Rubber	57.4	65.4	51.7	67.6	33.7	41.5	30.5	-------	-------
Forest products	32.2	28.7	19.9	20.9	2.8	23.9	2.6	-------	-------
Paper	31.7	39.7	38.1	20.8	5.6	15.8	3.0	-------	-------
Printing	37.9	36.7	28.3	26.2	12.6	16.7	(1)	-------	-------
Chemicals	64.7	78.7	79.1	65.2	37.2	37.6	3.7	-------	-------
Stone, clay, and glass	43.4	46.4	58.1	55.0	1.4	18.9	-------	-------	-------
Metals	63.0	64.1	67.6	74.4	28.7	53.0	1.6	-------	-------
Mining	64.7	58.9	50.4	29.8	10.9	14.6	(1)	-------	-------
Trade	33.9	35.3	44.5	57.4	25.3	19.8	7.6	-------	-------
Service	32.5	40.5	44.9	33.1	17.6	1.5	30.9	-------	-------

[1] Less than 0.05 percent.

TABLE 10.—*Consolidated returns in Federal corporate income taxation; number of returns, gross income, net income and Federal tax, by industries, 1928–36*—Con.

PART IV. FEDERAL CORPORATE INCOME TAXES REPORTED ON CONSOLIDATED RETURNS AS PERCENT OF TOTAL FEDERAL CORPORATE INCOME TAXES REPORTED ON ALL RETURNS—Continued

	1928	1929	1930	1931	1932	1933	1934	1935	1936
Construction	18.5	24.8	19.2	12.2	3.8	19.4	1.2		
Public utilities	79.4	80.2	79.1	75.4	33.8	40.0	2.9	0.7	7.9
Finance	22.2	22.2	21.2	14.5	4.1	11.3	([1])		
All corporations (including miscellaneous)	49.9	52.9	55.9	54.3	23.5	28.6			

[1] Less than 0.05 percent.

Source: Computed from Statistics of Income for respective years.

TABLE 11.—*Comparison of corporations filing consolidated and unconsolidated returns in 1933 and 1934 by industries*

PART I. MAJOR INDUSTRIES

	Manufacturing	Mining	Trade	Service	Construction	Public utilities	Finance	All
A. Taxable net income as percent of corporate receipts:								
1. Consolidated corporations:								
(*a*) All returns (net and no net):								
1933	2.7	0.9	1.8	1.5	0.2	3.5	2.0	2.6
1934	3.8	3.9	2.4	3.2	2.4	5.3	6.2	4.0
Increase or decrease	1.1	3.0	.6	1.7	2.2	1.8	4.2	1.4
(*b*) Net returns only:								
1933	4.4	5.9	2.8	5.7	1.3	9.7	7.3	5.1
1934	6.0	9.1	3.2	5.2	6.0	12.0	15.2	6.8
Increase or decrease	1.6	3.2	.4	−.5	4.7	2.3	7.9	1.7
2. Unconsolidated corporations:								
(*a*) All returns:								
1933	5.4	7.7	1.8	2.4	2.5	12.2	3.6	4.1
1934	5.4	9.7	2.0	3.1	2.6	12.2	5.1	4.3
Increase or decrease		2.0	.2	.7	.1		1.5	.2
(*b*) Net returns only:								
1933	8.2	16.0	2.9	7.4	6.7	18.6	9.6	7.1
1934	7.6	16.4	2.9	7.6	5.6	18.8	14.4	6.8
Increase or decrease	−.6	.4		.2	−1.1	.2	4.8	−.3
3. All corporations (consolidated and unconsolidated):								
(*a*) All returns:								
1933	4.1	3.6	1.8	2.2	2.2	6.2	3.4	3.5
1934	4.6	6.2	2.1	3.1	2.6	7.3	5.3	4.2
Increase or decrease	.5	2.6	.3	.9	.4	1.1	1.9	.7
(*b*) Net returns only:								
1933	6.5	12.8	2.9	7.0	6.3	13.7	10.3	6.4
1934	6.9	12.6	3.0	6.7	5.6	14.6	14.3	6.8
Increase or decrease	.4	−.2	.1	−.3	−.7	1.1	4.0	.4

TABLE 11.—*Comparison of corporations filing consolidated and unconsolidated returns in 1933 and 1934 by industry*—Continued

PART I. MAJOR INDUSTRIES—Continued

	Manufacturing	Mining	Trade	Service	Construction	Public utilities	Finance	All
B. Federal taxes as percent of taxable net income (net returns only):								
1. Consolidated corporations:								
1933	14.5	14.5	14.5	14.6	14.5	14.5	14.7	14.5
1934	13.9	13.8	14.0	14.2	13.8	13.8	13.9	13.9
Increase or decrease	−.6	−.7	−.5	−.4	−.7	−.7	−.8	−.6
2. Unconsolidated Corporations:								
1933	14.1	14.2	14.2	14.2	14.6	13.8	13.9	14.0
1934	14.0	14.1	14.0	14.1	14.4	13.8	13.9	14.0
Increase or decrease	−.1	−.1	−.2	−.1	−.2	------	------	------

PART II. MANUFACTURING INDUSTRIES

	Food	Beverages	Tobacco	Textiles	Leather	Rubber	Forest products	Paper	Printing	Chemicals	Stone, clay, glass	Metals
A. Taxable net income as percent of corporate receipts:												
1. Consolidated corporations:												
(a) All returns:												
1933	1.9	13.2	4.1	3.7	3.9	1.0	2.0	2.2	2.5	2.3	2.9	3.2
1934	2.6	13.5	5.1	1.9	2.2	1.7	2.8	4.3	5.4	4.0	7.0	4.3
Increase or decrease	.7	.3	1.0	−1.8	−1.7	.7	.8	2.1	2.9	1.7	4.1	1.1
(b) Net returns:												
1933	2.3	14.9	5.0	6.4	6.2	2.9	6.2	6.0	3.7	3.8	4.2	6.4
1934	2.9	15.6	6.0	4.5	3.5	3.5	6.6	7.0	8.3	9.9	9.3	6.3
Increase or decrease	.6	.7	1.0	−1.9	−2.7	.6	.4	1.0	4.6	6.1	5.1	−.1
2. Unconsolidated corporations:												
(a) All returns:												
1933	5.5	12.1	7.2	4.5	5.0	4.9	2.4	5.6	5.0	9.3	5.7	3.9
1934	4.7	8.7	9.5	2.9	3.7	3.6	2.4	6.9	6.5	9.5	7.0	5.2
Increase or decrease	−.8	−3.4	2.3	−1.6	−1.3	−1.3	-----	1.3	1.5	.2	1.3	1.3
(b) Net returns:												
1933	8.1	15.2	8.0	6 4	6.6	6.9	5.4	7.7	8.8	13.7	10.2	7.9
1934	6.1	11.0	9.8	4.7	5.3	5.7	5.2	8.6	9.3	11.6	10.4	7.7
Increase or decrease	−2.0	−4.2	1.8	−1.7	−1.3	−1.2	−.2	.9	.5	−2.1	.2	−.2
3. All corporations:												
(a) All returns:												
1933	3.6	12.4	6.9	4.4	4.8	1.9	2.3	4.5	4.3	4.3	4.8	3.5
1934	3.5	9.8	9.0	2.7	3.4	2.1	2.5	6.1	6.2	5.5	7.0	4.6
Increase or decrease	−.1	−2.6	2.1	−1.7	−1.4	.2	.2	1.6	1.9	1.2	2.2	1.1
(b) Net returns:												
1933	4.8	15.1	7.8	6.4	6.5	4.4	5.6	7.4	7.3	2.7	8.1	7.1
1934	4.2	12.1	9.5	4.7	5.0	4.0	5.6	8.2	9.0	10.7	10.0	6.8
Increase or decrease	−.6	−3.0	1.7	−1.7	−1.5	−.4	-----	.8	1.7	8.0	1.9	−.3

TABLE 11.—*Comparison of corporations filing consolidated and unconsolidated returns in 1933 and 1934 by industry*—Continued

PART II. MANUFACTURING INDUSTRIES—Continued

	Food	Beverages	Tobacco	Textiles	Leather	Rubber	Forest products	Paper	Printing	Chemicals	Stone, clay, glass	Metals
B. Federal taxes as percent of taxable net income (net returns only):												
1. Consolidated corporations:												
1933	14.5	14.5	14.5	14.4	14.8	14.4	14.5	14.6	14.5	14.5	14.5	14.5
1934	14.1	14.7	13.8	14.0	14.0	14.2	13.8	14.0	13.9	13.8	13.8	13.8
Increase or decrease	−.4	.2	−.7	−.4	−.8	−.2	−.7	−.6	−.6	−.7	−.7	−.7
2. Unconsolidated corporations:												
1933	14.1	14.4	13.8	14.1	14.1	14.4	14.3	14.1	13.9	14.0	14.0	14.0
1934	14.0	14.2	13.8	14.0	13.9	14.0	14.0	14.0	13.9	14.0	13.9	14.0
Increase or decrease	−.1	−.2	-----	−.1	−.2	−.4	−.3	−.1	-----	-----	−.1	----

NOTE.—All corporations filing consolidated returns in 1933 are included as consolidated corporations. In 1934 the great majority of corporations filed returns on unconsolidated basis, the only exceptions being railroads and corporations whose fiscal years exempted them from the provisions of the 1934 Revenue Act.

Source: Computed from Statistics of income.

TABLE 12.—*Industrial trends in the operation of the Federal taxes on corporate income, 1926–36* (*net returns only*)

PART I. TAXES AS PERCENT OF COMPILED NET PROFITS

	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936 [1]	1937
Manufacturing	11.8	11.7	10.3	9.3	9.7	9.7	11.2	12.7	12.4	12.0	15.2	15.7
Food	8.5	12.1	10.8	9.8	10.5	10.5	11.4	13.1	12.6	14.2	14.6	14.2
Beverages	8.5	12.1	10.2	9.5	10.5	10.1	12.8	14.1	13.8	14.2	16.5	17.8
Tobacco	8.1	12.3	11.3	10.4	11.3	11.3	12.9	11.6	12.4	11.7	14.4	14.7
Textiles	12.0	11.6	10.7	9.9	9.9	8.9	10.9	13.4	13.2	13.5	16.4	16.1
Leather	12.4	12.1	11.1	10.3	10.9	10.9	13.4	13.7	13.4	13.8	17.3	15.1
Rubber	6.6	11.2	9.5	8.8	7.6	8.7	9.8	13.8	13.7	12.6	16.2	13.4
Forest products	12.0	11.7	10.1	9.3	9.3	8.4	11.1	13.7	13.2	12.8	15.3	15.4
Paper	12.1	12.0	10.5	8.9	10.5	10.3	12.4	13.6	13.3	13.1	15.9	16.7
Printing	11.4	11.1	10.0	9.7	8.8	10.4	11.7	12.5	12.6	12.7	14.7	14.8
Chemicals	10.5	9.8	8.7	7.7	7.9	7.9	9.3	11.2	11.0	9.6	12.1	13.9
Stone, clay, and glass	12.6	12.6	11.1	10.1	10.7	10.2	12.0	13.0	12.6	12.6	15.0	15.7
Metals	12.5	12.4	11.0	9.8	10.4	10.0	11.7	12.8	12.4	12.1	15.5	17.3
Mining	11.0	11.1	9.5	9.1	9.4	8.7	10.3	13.0	12.4	11.7	12.8	14.1
Trade	11.5	11.3	9.2	8.9	9.1	9.3	12.0	13.3	13.1	13.0	15.3	15.8
Service	11.1	10.8	9.0	8.1	8.5	8.0	12.6	13.4	13.2	13.2	14.9	15.1
Construction	10.9	10.2	9.4	8.5	8.6	8.6	10.7	12.7	13.1	14.1	15.7	17.1
Public utilities	10.6	10.2	9.0	7.6	7.7	8.0	10.7	11.1	11.2	11.3	12.5	13.1
Finance	8.3	8.3	7.7	7.0	6.1	6.2	7.5	8.0	6.0	5.9	6.0	6.0

[1] Excludes returns not subject to the 1936 revenue act because of fiscal year.

Definition: Taxes include the normal corporate income tax for the entire period, the excess-profits tax for 1933 and subsequent years, and the surtax on undistributed profits for 1936. Compiled net profits includes the excess of compiled receipts over compiled deductions.

Source: Computed from Statistics of Income for respective years.

TABLE 12.—*Industrial trends in the operation of the Federal taxes on corporate income, 1926–36 (net returns only)*—Continued

PART II. TAXES AS PERCENT OF COMPILED NET PROFITS LESS INTERCORPORATE DIVIDENDS CREDIT [1]

	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936 [2]	1937
Manufacturing	12.8	12.6	11.3	10.3	11.2	11.0	12.6	13.7	13.6	14.1	16.8	17.2
Food	12.9	12.8	11.3	10.4	11.4	11.1	12.3	13.8	13.8	14.1	15.8	15.8
Beverages	------	------	------	------	------	------	------	14.2	14.0	14.5	17.6	18.4
Tobacco	------	------	------	------	------	11.9	13.5	13.1	13.3	13.6	15.4	15.6
Textiles	12.3	11.8	10.9	10.1	10.2	9.1	11.2	13.6	13.5	14.0	17.2	16.5
Leather	12.6	12.3	11.4	10.5	11.2	11.0	12.7	13.9	13.7	14.1	17.6	15.7
Rubber	12.8	12.5	11.4	10.7	10.6	9.7	10.2	14.0	13.9	14.7	17.1	16.8
Forest products	12.5	12.3	10.5	9.8	9.8	9.0	12.1	14.0	13.6	14.0	16.2	16.2
Paper	12.8	12.8	11.5	10.5	11.3	10.9	12.9	13.9	13.8	13.8	16.7	17.1
Printing	12.5	12.5	11.0	10.2	10.9	10.9	12.7	13.5	13.5	13.7	16.3	16.4
Chemicals	12.9	12.9	11.5	10.4	11.4	11.3	12.8	13.6	13.7	13.8	16.3	16.4
Stone, clay, and glass	12.9	12.9	11.3	10.3	11.1	10.8	12.3	13.6	13.5	14.0	16.2	16.3
Metals	12.9	12.8	11.3	10.2	11.3	11.0	12.4	13.6	13.5	14.4	17.1	18.1
Mining	11.8	12.3	10.8	10.1	10.7	9.8	11.4	13.8	13.6	13.6	15.2	16.3
Construction	11.6	11.5	9.9	9.1	9.9	9.2	11.2	13.6	13.6	14.7	16.7	17.9
Public utilities	13.1	13.1	11.5	10.5	11.5	11.4	13.6	13.8	13.6	13.7	15.4	15.6
Trade	11.9	11.8	9.5	9.2	9.8	9.8	12.8	14.0	13.9	14.0	16.0	16.7
Service	11.8	11.7	9.9	9.4	10.1	9.3	13.5	14.0	14.0	14.2	16.0	16.2
Finance	10.0	11.4	9.5	8.9	8.4	7.7	9.7	10.8	11.0	11.8	11.4	11.8

[1] In 1936–37 the intercorporate dividend credit was 85 percent of dividends received from domestic corporations subject to tax.
[2] Excludes returns not subject to the 1936 Revenue Act because of fiscal year.

PART III. TAXES AS PERCENT OF TAXABLE NET INCOME (BEFORE DEDUCTION OF PRIOR YEARS' LOSSES) [1]

	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936 [2]	1937
Manufacturing	13.0	12.9	11.5	10.4	11.5	11.3	13.2	14.2	14.0	14.4	17.2	17.9
Food	------	13.0	11.0	10.4	11.5	11.3	12.6	14.2	14.0	14.3	16.2	16.2
Beverages	12.9	12.7	10.7	10.5	11.2	10.6	13.4	14.4	14.2	14.6	18.3	19.1
Tobacco	13.4	13.1	11.3	11.0	12.0	12.0	13.8	13.8	14.8	13.8	15.5	15.8
Textiles	12.7	12.1	11.4	10.2	10.5	9.4	12.3	14.1	14.0	14.4	17.5	17.6
Leather	12.7	12.3	11.9	10.6	11.3	11.1	12.9	14.2	13.9	14.2	18.3	16.1
Rubber	13.0	12.6	12.1	10.8	10.9	9.8	10.8	14.4	14.1	14.8	17.8	17.3
Forest products	12.7	12.4	10.4	9.9	10.0	9.2	12.6	14.4	14.0	14.3	16.9	16.9
Paper	13.0	13.0	11.9	10.5	11.5	11.3	13.5	14.2	14.0	14.0	17.5	18.8
Printing	12.7	12.7	10.9	10.3	11.2	11.1	13.3	14.0	13.9	14.1	17.0	17.3
Chemicals	13.2	13.1	11.6	10.8	11.8	11.7	13.5	14.2	13.9	14.0	17.3	16.6
Stone, clay, and glass	13.1	13.1	11.8	10.6	11.3	11.1	13.3	14.1	13.8	14.3	16.6	17.0
Metals	13.2	13.2	11.7	10.3	11.6	11.4	13.4	14.3	13.9	14.7	17.1	19.0
Mining	12.6	12.6	11.1	10.3	11.1	10.1	11.9	14.2	14.0	14.1	15.7	17.2
Trade	12.1	11.9	10.1	9.3	9.9	9.9	13.1	14.3	14.1	14.2	16.6	17.4
Service	11.9	11.7	10.0	9.4	10.1	9.4	13.0	14.3	14.1	14.3	16.5	16.9
Construction	11.8	11.7	10.1	9.3	10.1	9.5	11.9	14.6	14.4	15.2	17.3	19.0
Public utilities	13.3	13.3	11.7	10.6	11.7	11.7	13.9	14.1	13.8	13.9	15.7	15.8
Finance	12.0	11.9	10.8	10.1	10.3	9.7	12.7	14.0	13.9	14.2	17.3	18.2

[1] Taxable net income includes compiled net profits less tax-exempt income.
[2] Excludes returns not subject to the 1936 revenue act because of fiscal year.

Source: Computed from Statistics of Income for respective years.

TABLE 12.—*Industrial trends in the operation of the Federal taxes on corporate income, 1926–36 (net returns only)*—Continued

PART IV. TAXES AS PERCENT OF TAXABLE NET INCOME (AFTER DEDUCTION OF PRIOR YEARS' LOSSES) [1]

	1926	1927	1928	1929	1930	1931	1932
Manufacturing	13.3	13.2	11.8	10.9	11.7	11.7	13.8
Food	13.2	13.3	11.8	10.7	11.7	11.7	13.8
Beverages	--------	13.0	11.7	10.7	11.5	11.3	13.7
Tobacco	13.5	13.2	11.4	11.0	12.0	12.0	13.8
Textiles	13.1	13.1	11.8	10.6	10.9	10.9	13.2
Leather	13.2	13.3	12.0	10.8	11.5	11.6	13.3
Rubber	13.3	13.4	12.1	11.0	11.6	11.8	13.7
Forest products	13.1	12.9	11.5	10.5	10.6	10.3	13.7
Paper	13.3	13.3	12.0	10.9	11.7	11.6	13.9
Printing	12.9	12.9	11.2	10.5	11.3	11.4	13.8
Chemicals	13.4	13.3	12.0	11.0	11.9	11.9	14.0
Stone, clay, and glass	13.2	13.2	11.9	10.8	13.6	11.5	13.7
Metals	13.4	13.3	12.1	10.9	11.8	11.8	13.9
Mining	13.3	13.2	11.7	10.8	11.6	11.1	13.8
Trade	12.4	12.3	10.5	9.7	10.2	10.4	13.8
Service	12.4	12.3	10.6	10.0	10.6	10.0	14.6
Construction	12.5	12.4	10.7	9.9	10.8	10.6	13.7
Public utilities	13.4	13.3	11.9	10.9	11.9	11.8	14.0
Finance	12.3	12.4	11.2	10.4	10.7	10.3	13.7

[1] No deduction for prior years' losses was permitted in 1933–37.

Source: Computed from Statistics of Income for respective years.

TABLE 13.—*Federal corporate income-tax payments as percent of profits of corporations of varying size, 1931–37*

NORMAL TAX AS PERCENT OF COMPILED NET PROFITS [1]

Size classes (000 omitted)	1931	1932	1933	1934	1935	1936	1937
Under $50	2.8	10.8	13.4	13.5	13.5	10.0	9.5
$50 to $100	5.2	11.5	13.4	13.5	13.5	10.4	10.2
$100 to $250	7.4	11.8	13.2	13.3	13.2	10.7	10.8
$250 to $500	9.0	11.9	13.0	13.1	12.9	11.5	11.5
$500 to $1,000	9.4	12.0	12.8	12.7	12.6	12.0	11.8
$1,000 to $5,000	9.7	11.1	12.5	12.2	11.9	12.0	12.0
$5,000 to $10,000	9.9	11.1	12.2	11.8	11.4	11.7	11.7
$10,000 to $50,000	9.2	10.9	11.5	11.3	10.9	11.2	11.7
$50,000 to $100,000	8.1	9.7	10.6	8.9	8.1	9.9	10.8
Over $100,000						8.9	9.3

NORMAL TAX AS PERCENT OF COMPILED NET PROFITS [2] LESS TAX CREDIT FOR INTERCORPORATE DIVIDENDS

Size classes (000 omitted)	1931	1932	1933	1934	1935	1936	1937
Under $50	2.9	10.9	13.6	13.6	13.6	10.3	9.8
$50 to $100	5.3	11.7	13.5	13.6	13.6	10.7	10.4
$100 to $250	7.6	12.2	13.5	13.5	13.5	11.5	11.4
$250 to $500	9.4	12.3	13.3	13.4	13.3	12.4	12.3
$500 to $1,000	10.0	12.7	13.3	13.3	13.2	13.1	13.0
$1,000 to $5,000	10.5	12.1	13.2	13.1	13.0	13.7	13.7
$5,000 to $10,000	10.8	12.3	13.0	13.0	12.9	14.0	14.1
$10,000 to $50,000	10.6	12.3	12.9	12.9	12.8	14.0	14.2
$50,000 to $100,000	10.5	12.0	12.7	12.1	12.1	13.9	14.5
Over $100,000						13.8	14.3

NORMAL TAX AS PERCENT OF NORMAL TAX NET INCOME (I. E., PROFITS LESS TAX CREDITS FOR INTERCORPORATE DIVIDEND [2] AND GOVERNMENT INTEREST)

Size classes (000 omitted)	1931	1932	1933	1934	1935	1936	1937
Under $50	2.9	10.9	13.7	13.7	13.7	10.3	9.8
$50 to $100	5.3	11.8	13.7	13.7	13.7	10.8	10.5
$100 to $250	7.7	12.4	13.7	13.7	13.7	11.6	11.4
$250 to $500	9.6	12.6	13.7	13.7	13.7	12.7	12.6
$500 to $1,000	10.3	13.1	13.6	13.6	13.6	13.5	13.5
$1,000 to $5,000	11.0	12.8	13.7	13.6	13.5	14.4	14.4
$5,000 to $10,000	11.4	13.1	13.7	13.5	13.4	14.8	14.9
$10,000 to $50,000	11.3	13.2	13.6	13.4	13.3	14.8	15.0
$50,000 to $100,000	11.2	13.0	13.6	12.9	12.5	14.8	15.4
Over $100,000						15.8	15.5

[1] Compiled net profits includes the excess of compiled receipts over compiled deductions.
[2] In 1936–37 the intercorporate dividend credit was 85 percent of dividends received from domestic corporations subject to tax.

Source: Computed from Statistics of Income.

262698—41—No. 9——12

TABLE 13-A.—*Federal corporate income-tax payments, 1931–37, by size of corporations and industries*

[Net income returns only]

(Computed from the Sourcebook of the Statistical Section of the Bureau of Internal Revenue. Federal income taxes include the normal corporation income tax, the excess-profits tax since 1933, and the surtax on undistributed profits for 1936–37. Compiled net profits include the excess of compiled receipts over compiled deductions before the payment of Federal income taxes. Taxable net income includes compiled net profits less tax-exempt income. In 1936, 15 percent of dividends received on stock of domestic corporations were included, whereas previously 100 percent was excluded as tax-exempt income)

MANUFACTURING

Size classes based on total assets (in thousands)	1931	1932	1933	1934	1935	1936	1937
	Federal income taxes as percentages of compiled net profits						
Under $50	3.1	10.4	14.2	14.3	14.7	16.0	14.6
$50 to $100	6.0	11.4	14.3	14.3	14.6	14.5	15.1
$100 to $250	8.5	12.0	14.1	14.0	14.4	15.3	16.0
$250 to $500	10.0	12.3	14.0	13.8	14.3	16.1	16.9
$500 to $1,000	10.5	12.4	13.8	13.6	14.0	16.7	17.6
$1,000 to $5,000	10.7	12.2	13.4	13.1	13.5	16.7	17.9
$5,000 to $10,000	10.8	12.3	13.3	12.9	12.7	16.3	17.6
$10,000 to $50,000	10.1	11.9	12.6	12.3	12.4	14.7	16.1
Over $50,000	9.3	10.1	11.6	11.1	9.9	13.1	14.2
	Federal income taxes as percentages of taxable net income						
Under $50	3.1	10.6	14.6	14.5	14.8	16.0	15.2
$50 to $100	6.1	11.6	14.6	14.4	14.8	14.6	15.9
$100 to $250	8.7	12.3	14.5	14.3	14.6	15.3	16.9
$250 to $500	10.4	12.8	14.4	14.2	14.6	16.1	17.8
$500 to $1,000	11.0	13.1	14.3	14.1	14.5	16.7	18.8
$1,000 to $5,000	11.4	13.2	14.1	14.0	14.4	16.8	19.3
$5,000 to $10,000	11.6	13.5	14.1	13.9	14.1	16.4	19.3
$10,000 to $50,000	11.7	13.6	14.1	13.8	14.2	14.8	18.0
Over $50,000	11.9	13.2	14.2	13.8	14.4	13.1	16.8

FOOD

Size classes based on total assets (in thousands)	1931 [1]	1932 [1]	1933 [1]	1934	1935	1936	1937
	Federal income taxes as percentages of compiled net profits						
Under $50	4.6	11.9	14.4	14.3	14.5	14.0	14.1
$50 to $100	6.5	12.1	14.1	14.1	14.3	14.1	14.2
$100 to $250	9.0	12.6	14.3	14.1	14.4	14.3	14.5
$250 to $500	10.3	12.4	14.3	13.9	14.2	15.4	15.4
$500 to $1,000	10.5	12.5	14.0	13.8	14.0	15.9	15.8
$1,000 to $5,000	11.1	12.7	13.8	13.3	13.6	16.6	16.8
$5,000 to $10,000	11.4	12.4	13.3	13.0	12.8	15.6	16.3
$10,000 to $50,000	10.0	11.7	13.6	13.1	12.4	14.8	14.4
Over $50,000	10.8	10.7	12.9	11.1	9.8	13.2	12.4
	Federal income taxes as percentages of taxable net income						
Under $50	4.7	12.0	14.6	14.5	14.6	14.0	14.7
$50 to $100	6.6	12.3	14.4	14.5	14.6	14.2	14.9
$100 to $250	9.2	12.8	14.6	14.4	14.6	14.2	15.2
$250 to $500	10.8	12.8	14.5	14.3	14.7	15.4	16.2
$500 to $1,000	11.0	13.1	14.3	14.2	14.5	16.0	16.8
$1,000 to $5,000	11.7	13.5	14.2	14.1	14.6	16.7	18.1
$5,000 to $10,000	11.9	13.3	14.0	14.0	14.1	15.7	17.9
$10,000 to $50,000	11.3	13.4	14.2	13.9	14.0	14.9	15.9
Over $50,000	11.7	11.9	14.2	14.0	14.0	13.3	15.7

[1] Beverages are included as part of food.

TABLE 13-A.—*Federal corporate income-tax payments, 1931-37, by size of corporations and industries*—Continued

BEVERAGES [1]

Size classes based on total assets (in thousands)	1933	1934	1935	1936	1937
	Federal income taxes as percentages of compiled net profits				
Under $50	14.5	14.4	14.9	13.8	13.5
$50 to $100	14.4	14.5	14.9	14.5	14.9
$100 to $250	14.6	14.6	14.4	15.6	16.7
$250 to $500	14.7	14.2	14.7	16.8	16.4
$500 to $1,000	14.3	13.6	13.9	17.1	17.6
$1,000 to $5,000	14.3	14.0	14.2	19.5	18.9
$5,000 to $10,000	13.2	13.2	14.0	19.4	22.4
$10,000 to $50,000	13.7	13.6	13.9	17.6	19.0
Over $50,000	------	------	------	10.5	------
	Federal income taxes as percentages of taxable net income				
Under $50	14.6	14.6	15.0	13.8	13.9
$50 to $100	14.5	14.6	15.0	14.5	15.5
$100 to $250	14.7	14.7	14.7	15.6	17.4
$250 to $500	14.8	14.3	14.7	16.8	17.0
$500 to $1,000	14.6	14.0	14.2	17.2	18.8
$1,000 to $5,000	14.5	14.2	14.7	19.5	20.1
$5,000 to $10,000	14.1	14.1	14.4	19.5	24.3
$10,000 to $50,000	14.2	13.9	14.6	17.8	21.1
Over $50,000	------	------	------	10.5	------

[1] For 1931 and 1932 beverages were included with foods in Statistics of Income.

TOBACCO

Size classes based on total assets (in thousands)	1931	1932	1933	1934	1935	1936	1937
	Federal income taxes as percentages of compiled net profits						
Under $50	6.8	10.0	14.5	14.3	15.4	11.7	11.5
$50 to $100	3.2	11.9	14.8	13.9	14.4	13.0	12.9
$100 to $250	9.5	13.3	13.6	13.4	14.3	13.3	13.0
$250 to $500	10.3	12.3	14.0	13.9	13.7	12.2	15.2
$500 to $1,000	11.3	12.1	12.8	13.0	14.8	13.4	16.1
$1,000 to $5,000	11.3	12.8	13.0	13.1	13.8	17.0	17.6
$5,000 to $10,000	11.7	13.2	12.8	13.3	12.9	13.3	18.4
$10,000 to $50,000	11.2	13.1	13.2	13.1	13.1	14.6	16.1
Over $50,000	11.4	12.8	10.9	12.2	11.2	14.2	14.4
	Federal income taxes as percentages of taxable net income						
Under $50	6.8	10.0	14.8	15.6	15.4	11.7	11.6
$50 to $100	3.2	11.1	15.1	13.7	14.4	13.0	15.7
$100 to $250	10.1	13.6	14.3	13.8	14.6	13.3	13.8
$250 to $500	10.8	13.2	13.6	14.1	14.2	12.4	17.1
$500 to $1,000	11.8	12.2	13.5	15.0	15.8	13.8	16.7
$1,000 to $5,000	11.6	13.7	13.8	13.8	14.4	17.0	19.1
$5,000 to $10,000	13.0	13.8	13.9	13.7	13.8	13.3	20.8
$10,000 to $50,000	12.0	14.0	13.9	13.7	13.8	14.7	17.7
Over $50,000	12.0	13.7	13.8	13.7	13.8	14.2	15.1

TABLE 13–A.—*Federal corporate income-tax payments, 1931–37, by size of corporations and industries*—Continued

TEXTILES (INCLUDING CLOTHING)

Size classes based on total assets (in thousands)	1931	1932	1933	1934	1935	1936	1937
	Federal income taxes as percentages of compiled net profits						
Under $50	1.7	9.5	14.3	14.4	14.6	14.6	14.8
$50 to $100	5.1	10.8	14.5	14.2	14.6	14.7	13.7
$100 to $250	7.4	11.6	14.3	14.1	14.4	15.8	15.1
$250 to $500	9.4	12.4	14.0	13.8	14.3	16.7	16.7
$500 to $1,000	9.9	11.9	14.0	13.5	13.9	17.4	16.9
$1,000 to $5,000	10.2	11.1	13.6	13.3	13.6	17.4	17.3
$5,000 to $10,000	6.9	10.4	12.7	12.5	12.9	18.3	17.2
$10,000 to $50,000	9.4	10.8	13.0	12.7	13.0	16.0	------
Over $50,000	12.0	(1)	12.6	11.1	12.0	14.5	------
	Federal income taxes as percentages of taxable net income						
Under $50	1.7	9.6	14.7	14.5	14.7	14.6	15.1
$50 to $100	5.1	11.0	14.7	14.4	14.6	14.7	15.5
$100 to $250	7.5	11.9	14.6	14.2	14.6	15.8	15.5
$250 to $500	9.6	12.8	14.4	14.3	14.5	16.7	17.2
$500 to $1,000	10.1	12.4	14.4	14.0	14.3	17.4	17.5
$1,000 to $5,000	10.7	12.3	14.2	14.0	14.4	17.4	18.4
$5,000 to $10,000	7.8	12.6	13.8	13.9	14.2	18.3	18.5
$10,000 to $50,000	10.8	12.7	13.8	13.8	14.4	15.5	------
Over $50,000	12.0	11.1	14.1	13.8	13.7	14.9	------

LEATHER

Size classes based on total assets (in thousands)	1931	1932	1933	1934	1935	1936	1937
	Federal income taxes as percentages of compiled net profits						
Under $50	3.1	10.4	11.9	14.1	12.0	14.5	14.3
$50 to $100	4.8	10.8	15.0	14.4	14.4	13.9	15.2
$100 to $250	7.1	11.6	14.1	14.0	14.4	14.6	16.2
$250 to $500	9.1	11.9	13.4	13.8	14.2	15.2	14.9
$500 to $1,000	11.8	12.6	14.0	14.3	14.1	17.1	15.7
$1,000 to $5,000	11.1	10.0	13.7	13.2	13.9	17.7	15.9
$5,000 to $10,000	10.9	12.8	14.0	10.3	13.2	19.1	15.4
$10,000 to $50,000	11.7	12.3	13.1	13.2	13.5	30.7	------
Over $50,000	12.0	13.6	13.7	13.7	13.7	------	------
	Federal income taxes as percentages of taxable net income						
Under $50	3.1	10.9	15.1	14.4	14.6	14.5	14.3
$50 to $100	4.8	10.8	15.1	14.5	14.5	14.0	15.4
$100 to $250	7.2	11.7	14.5	14.2	14.6	14.6	16.6
$250 to $500	9.3	12.2	14.3	14.1	14.4	15.3	16.0
$500 to $1,000	12.1	12.8	14.4	11.5	14.7	17.3	16.8
$1,000 to $5,000	11.5	12.1	14.4	13.9	14.3	17.7	16.8
$5,000 to $10,000	11.4	13.8	14.2	13.7	13.9	19.2	16.6
$10,000 to $50,000	12.0	12.5	13.8	13.8	13.7	30.7	------
Over $50,000	12.0	13.6	13.7	13.7	13.7	------	------

RUBBER

Size classes based on total assets (in thousands)	1931	1932	1933	1934	1935	1936	1937
	Federal income taxes as percentages of compiled net profits						
Under $50	4.8	8.4	14.9	13.9	14.2	14.7	17.0
$50 to $100	5.8	12.3	15.1	14.6	14.1	12.7	14.2
$100 to $250	5.7	11.8	14.9	14.1	14.5	15.5	14.8
$250 to $500	10.7	12.4	14.6	14.1	14.6	18.3	17.4
$500 to $1,000	8.0	14.3	14.5	13.7	14.7	18.2	19.4
$1,000 to $5,000	9.6	11.2	13.4	13.0	13.3	16.7	18.2
$5,000 to $10,000	7.1	(1)	13.2	13.5	10.6	19.3	19.8
$10,000 to $50,000	------	------	12.9	12.9	15.2	17.2	16.4
Over $50,000	8.8	9.8	14.4	14.2	8.4	14.7	------

[1] Not computed.

TABLE 13–A.—*Federal corporate income-tax payments, 1931–37, by size of corporations and industries*—Continued

RUBBER—Continued

Size classes based on total assets (in thousands)	1931	1932	1933	1934	1935	1936	1937
	Federal income taxes as percentages of taxable net income						
Under $50	4.8	12.5	14.9	13.9	14.2	14.0	18.3
$50 to $100	5.9	12.3	15.1	14.7	14.5	12.7	14.6
$100 to $250	6.3	11.9	15.2	14.3	14.5	15.5	15.3
$250 to $500	10.9	12.8	14.7	14.3	14.9	18.3	18.4
$500 to $1,000	8.0	14.3	14.9	13.8	14.7	18.2	20.6
$1,000 to $5,000	10.1	13.1	14.2	13.8	14.5	16.9	19.3
$5,000 to $10,000	7.1	(1)	13.3	13.8	14.3	19.3	21.4
$10,000 to $50,000	------	------	14.3	13.7	15.7	17.2	18.6
Over $50,000	10.4	11.3	14.5	14.6	13.7	14.7	------

FOREST PRODUCTS

	Federal income taxes as percentages of compiled net profits						
Under $50	1.8	8.6	14.4	14.2	14.9	14.6	14.8
$50 to $100	5.9	9.9	13.6	14.5	14.8	14.4	15.0
$100 to $250	7.7	11.6	14.0	13.9	14.4	15.5	15.5
$250 to $500	8.5	11.6	13.9	13.6	14.1	14.7	15.7
$500 to $1,000	10.2	11.7	13.8	13.4	14.1	15.7	16.1
$1,000 to $5,000	10.7	12.3	13.2	12.9	12.5	15.5	15.9
$5,000 to $10,000	4.8	7.1	13.1	12.8	9.3	19.3	17.8
$10,000 to $50,000	1.8	------	13.1	13.1	10.4	10.8	------
Over $50,000	------	------	13.7	11.4	10.7	13.1	------
	Federal income taxes as percentages of taxable net income						
Under $50	1.8	8.8	14.8	14.5	15.0	14.6	15.9
$50 to $100	6.0	10.1	14.7	14.6	14.9	14.4	16.0
$100 to $250	7.8	11.9	14.4	14.1	14.6	15.5	16.4
$250 to $500	8.9	12.1	14.4	14.1	14.5	14.8	16.9
$500 to $1,000	10.8	12.9	14.4	14.0	14.7	15.7	17.4
$1,000 to $5,000	11.3	13.5	14.1	13.9	14.1	15.6	17.5
$5,000 to $10,000	9.1	13.9	14.8	13.8	13.7	19.4	20.0
$10,000 to $50,000	4.9	------	14.5	13.8	13.8	10.8	------
Over $50,000	------	------	14.5	13.7	13.8	13.3	------

PAPER

	Federal income taxes as percentages of compiled net profits						
Under $50	3.1	12.2	13.7	14.2	14.6	13.9	14.5
$50 to $100	5.4	11.6	14.2	13.9	14.1	14.3	13.6
$100 to $250	8.7	12.6	14.2	14.0	14.4	14.8	15.6
$250 to $500	10.4	11.9	14.3	13.8	13.9	16.1	17.5
$500 to $1,000	10.8	14.3	13.7	13.7	13.7	16.3	17.4
$1,000 to $5,000	11.0	12.5	13.5	13.3	12.9	17.6	17.9
$5,000 to $10,000	11.4	11.8	13.6	13.4	13.1	16.0	16.4
$10,000 to $50,000	9.6	13.2	13.3	13.4	12.8	15.1	16.3
Over $50,000	9.4	7.3	14.3	8.4	10.0	12.6	------
	Federal income taxes as percentages of taxable net income						
Under $50	3.1	12.2	13.9	14.2	14.8	13.9	15.3
$50 to $100	5.5	11.7	14.4	14.2	14.2	14.5	14.2
$100 to $250	10.2	12.7	14.4	14.2	14.6	14.8	16.5
$250 to $500	10.7	13.0	14.6	14.2	14.2	16.1	18.7
$500 to $1,000	11.5	15.0	14.2	14.3	14.1	16.4	18.7
$1,000 to $5,000	10.8	13.2	14.2	13.9	14.0	17.6	19.6
$5,000 to $10,000	11.8	13.0	14.1	14.0	14.1	16.1	17.7
$10,000 to $50,000	11.7	13.7	13.9	13.9	13.9	15.2	18.2
Over $50,000	12.4	13.8	14.0	14.6	14.4	12.6	------

[1] Not computed.

TABLE 13-A.—*Federal corporate income-tax payments, 1931–37, by size of corporations and industries*—Continued

PRINTING

Size classes based on total assets (in thousands)	1931	1932	1933	1934	1935	1936	1937
	Federal income taxes as percentages of compiled net profits						
Under $50	2.7	9.9	14.1	14.2	14.5	[1] 14.7	14.0
$50 to $100	6.2	12.1	13.8	13.9	14.3	13.5	13.5
$100 to $250	8.8	12.5	13.6	13.9	14.1	14.1	14.7
$250 to $500	10.3	12.7	13.7	13.5	13.9	14.8	15.7
$500 to $1,000	10.8	11.7	12.9	13.1	13.4	15.4	16.0
$1,000 to $5,000	10.9	12.4	12.7	13.2	13.2	16.7	16.2
$5,000 to $10,000	[1] 10.1	12.5	13.0	12.2	12.1	15.4	15.0
$10,000 to $50,000	10.7	10.7	11.6	11.5	11.5	12.3	14.8
Over $50,000	10.6	9.5	9.2	10.9	11.0	10.2	------
	Federal income taxes as percentages of taxable net income						
Under $50	2.7	10.1	14.2	14.5	14.6	[1] 14.7	14.7
$50 to $100	6.4	12.6	14.2	14.3	14.5	13.5	14.2
$100 to $250	9.2	12.9	14.0	14.2	14.5	14.1	15.5
$250 to $500	10.8	13.2	14.2	13.9	14.3	14.9	16.7
$500 to $1,000	11.5	13.1	14.0	14.0	14.2	15.5	17.3
$1,000 to $5,000	11.5	13.2	14.1	14.0	14.2	16.8	17.9
$5,000 to $10,000	12.0	13.8	13.9	13.8	13.8	15.4	17.3
$10,000 to $50,000	11.9	13.1	14.0	13.8	13.8	12.4	18.5
Over $50,000	12.0	13.9	14.3	13.8	13.8	10.4	------

CHEMICALS (INCLUDING PETROLEUM)

	Federal income taxes as percentages of compiled net profits						
Under $50	4.0	11.4	14.0	14.1	14.7	14.5	13.7
$50 to $100	6.2	12.1	14.4	14.1	14.4	14.5	15.2
$100 to $250	8.9	12.1	14.1	14.1	14.2	15.7	16.1
$250 to $500	10.4	12.7	13.8	13.8	13.9	15.7	15.6
$500 to $1,000	10.4	12.9	13.6	13.7	13.7	16.4	16.7
$1,000 to $5,000	10.9	12.4	13.3	12.8	12.5	15.8	16.4
$5,000 to $10,000	11.1	12.9	13.7	13.3	12.6	14.7	15.4
$10,000 to $50,000	10.2	12.5	11.7	11.9	11.5	13.9	15.1
Over $50,000	9.7	6.2	8.7	7.8	5.8	10.4	14.4
	Federal income taxes as percentages of taxable net income						
Under $50	4.1	11.4	14.4	14.2	14.9	14.5	14.2
$50 to $100	6.3	12.4	14.6	14.3	14.6	14.6	16.1
$100 to $250	9.0	12.5	14.3	14.3	14.4	15.7	16.9
$250 to $500	10.6	13.0	14.1	14.3	14.3	15.7	16.5
$500 to $1,000	11.0	13.4	14.3	14.2	14.3	16.5	17.3
$1,000 to $5,000	11.5	13.4	13.9	14.0	14.2	15.9	18.4
$5,000 to $10,000	11.9	13.7	14.2	13.8	13.8	14.7	17.2
$10,000 to $50,000	12.1	13.9	14.3	13.8	14.0	14.2	16.9
Over $50,000	10.1	13.4	14.3	14.0	13.8	10.4	16.8

STONE, CLAY, AND GLASS

	Federal income taxes as percentages of compiled net profits						
Under $50	1.3	8.6	14.3	13.9	14.6	15.0	14.9
$50 to $100	6.0	11.2	14.1	14.3	14.8	14.4	14.1
$100 to $250	8.1	12.1	12.5	13.9	14.1	15.4	15.2
$250 to $500	9.5	11.5	14.3	13.8	14.2	16.0	16.5
$500 to $1,000	10.4	11.1	13.6	13.5	13.9	16.5	17.4
$1,000 to $5,000	10.2	12.6	12.9	13.2	14.4	15.9	17.0
$5,000 to $10,000	10.[illegible]	13.1	13.5	13.1	11.0	16.7	16.5
$10,000 to $50,000	10.7	11.6	12.5	11.6	12.1	13.9	15.0
Over $50,000	10.2	13.9	13.8	12.5	12.1	15.0	------

[1] Roughly corrected for arithmetical error in source.

TABLE 13–A.—*Federal corporate income-tax payments, 1931–37, by size of corporations and industries*—Continued

STONE, CLAY, AND GLASS—Continued

Size classes based on total assets (in thousands)	1931	1932	1933	1934	1935	1936	1937
	Federal income taxes as percentages of taxable net income						
Under 50	1.3	8.7	14.3	14.2	14.7	15.0	15.7
$50 to $100	6.1	11.6	14.3	14.5	15.2	14.4	14.7
$100 to $250	8.3	12.4	14.2	14.3	14.5	15.4	16.0
$250 to $500	9.9	12.0	14.8	14.3	14.6	16.1	17.5
$500 to $1,000	10.9	12.1	14.1	14.0	14.5	16.6	18.5
$1,000 to $5,000	11.3	13.7	13.8	13.8	14.8	16.0	18.2
$5,000 to $10,000	10.9	13.8	14.3	13.9	14.2	16.7	18.2
$10,000 to $50,000	11.8	13.8	14.0	13.8	14.0	14.1	16.7
Over $50,000	10.9	13.9	14.4	13.7	14.2	15.1	------

METALS (INCLUDING MOTOR VEHICLES)

Size classes based on total assets (in thousands)	1931	1932	1933	1934	1935	1936	1937
	Federal income taxes as percentages of compiled net profits						
Under $50	2.5	8.8	14.6	14.6	14.9	15.1	15.3
$50 to $100	5.9	9.9	14.5	14.4	14.9	15.3	15.4
$100 to $250	8.2	10.9	14.0	13.9	14.6	16.2	17.3
$250 to $500	10.1	13.1	13.9	13.8	14.4	17.3	18.7
$500 to $1,000	10.4	12.5	13.8	13.7	14.5	18.3	18.2
$1,000 to $5,000	10.4	11.6	13.8	12.8	13.7	17.6	18.6
$5,000 to $10,000	10.3	11.9	13.2	12.9	12.8	16.9	19.2
$10,000 to $50,000	11.6	10.9	12.2	11.8	12.5	15.4	17.4
Over $50,000	10.2	12.2	12.6	11.8	11.0	14.4	14.5
	Federal income taxes as percentages of taxable net income						
Under $50	2.5	8.9	14.7	14.7	15.0	15.1	15.7
$50 to $100	6.0	10.1	14.8	14.5	15.0	15.3	16.1
$100 to $250	8.3	11.2	14.4	14.4	14.8	16.2	18.6
$250 to $500	10.5	12.7	14.4	14.2	14.8	17.3	20.0
$500 to $1,000	11.0	13.1	14.3	14.1	14.4	18.4	19.4
$1,000 to $5,000	11.6	13.0	14.0	13.9	14.5	17.7	19.9
$5,000 to $10,000	11.2	13.5	14.1	14.0	14.2	17.0	21.0
$10,000 to $50,000	11.6	14.1	14.2	13.8	14.4	15.5	18.9
Over $50,000	11.8	14.0	14.3	13.8	14.9	14.6	17.8

MINING

Size classes based on total assets (in thousands)	1931	1932	1933	1934	1935	1936	1937
	Federal income taxes as percentages of compiled net profits						
Under $50	5.7	11.1	14.5	14.1	14.1	12.7	13.1
$50 to $100	6.9	11.0	14.7	14.2	14.1	13.6	17.7
$100 to $250	8.5	12.3	13.7	14.8	14.2	13.8	14.6
$250 to $500	8.1	11.8	14.0	13.8	13.9	13.8	15.0
$500 to $1,000	10.1	12.3	13.6	13.5	13.4	14.0	14.8
$1,000 to $5,000	8.8	10.9	13.4	12.4	11.9	14.2	15.0
$5,000 to $10,000	8.4	12.2	10.9	12.2	10.4	14.2	15.5
$10,000 to $50,000	9.0	12.5	12.5	11.2	10.8	13.1	15.5
$50,000 and over	9.1	.6	12.8	11.9	11.3	11.1	13.3
	Federal income taxes as percentages of taxable net income						
Under $50	5.8	11.2	14.7	14.5	14.6	12.7	13.5
$50 to $100	7.1	11.2	14.8	14.4	14.4	13.6	16.3
$100 to $250	8.6	12.5	14.1	14.2	14.5	13.8	15.5
$250 to $500	9.8	12.1	14.4	14.4	14.5	13.9	15.7
$500 to $1,000	10.3	12.6	14.1	14.4	14.5	14.1	16.2
$1,000 to $5,000	10.4	12.8	14.6	13.9	14.1	14.3	17.1
$5,000 to $10,000	10.8	13.4	13.9	14.0	13.8	14.3	18.9
$10,000 to $50,000	11.6	13.9	13.9	13.8	13.9	13.3	18.1
$50,000 and over	11.4	1.2	14.5	13.7	13.7	11.1	17.2

TABLE 13-A.—*Federal corporate income-tax payments, 1931-37, by size of corporations and industries*—Continued

TRADE

Size classes based on total assets (in thousands)	1931	1932	1933	1934	1935	1936	1937
	Federal income taxes as percentages of compiled net profits						
Under $50	2.2	10.3	14.5	14.3	14.6	14.2	14.3
$50 to $100	4.8	11.2	14.1	14.1	14.3	14.2	14.5
$100 to $250	7.4	11.9	14.1	13.9	14.0	14.6	15.1
$250 to $500	9.3	12.2	13.4	13.6	13.9	15.2	15.9
$500 to $1,000	10.1	12.1	13.5	13.5	13.7	16.3	16.7
$1,000 to $5,000	10.3	12.1	13.3	12.9	13.1	16.8	17.5
$5,000 to $10,000	10.8	12.1	13.1	13.2	12.8	16.1	16.2
$10,000 to $50,000	10.4	12.1	12.0	12.6	11.8	15.7	16.5
Over $50,000	11.1	12.2	13.2	12.2	12.6	14.1	14.3
	Federal income taxes as percentages of taxable net income						
Under $50	2.3	10.5	14.7	14.4	14.7	14.2	15.1
$50 to $100	4.8	11.6	14.4	14.3	14.5	14.2	15.2
$100 to $250	7.6	12.3	14.3	14.2	14.4	14.6	16.0
$250 to $500	9.9	12.7	14.2	14.1	14.3	15.3	17.1
$500 to $1,000	10.8	12.7	14.2	14.1	14.4	16.3	18.0
$1,000 to $5,000	11.3	13.2	14.2	14.0	14.2	17.0	19.1
$5,000 to $10,000	11.9	13.3	14.2	14.0	14.0	16.2	18.0
$10,000 to $50,000	11.5	13.6	14.0	14.2	13.9	15.8	18.4
Over $50,000	12.1	13.8	14.3	13.9	13.9	14.2	16.9

SERVICE

Size classes based on total assets (in thousands)	1931	1932	1933	1934	1935	1936	1937
	Federal income taxes as percentages of compiled net profits						
Under $50	3.6	11.1	14.8	14.2	14.6	13.9	14.3
$50 to $100	6.3	11.6	14.2	14.0	14.3	14.4	14.7
$100 to $250	8.3	12.2	13.5	13.6	13.9	14.4	15.0
$250 to $500	10.3	12.6	13.5	13.1	13.7	14.7	15.9
$500 to $1,000	10.2	12.4	13.4	13.2	12.9	15.6	15.7
$1,000 to $5,000	10.8	12.6	13.1	12.9	13.0	15.5	15.9
$5,000 to $10,000	10.9	12.7	13.8	11.9	12.2	15.5	15.7
$10,000 to $50,000	9.4	10.3	10.7	11.7	10.4	15.5	13.9
Over $50,000	5.1	11.8	13.1	13.0	11.2	15.4	13.6
	Federal income taxes as percentages of taxable net income						
Under $50	3.6	11.2	15.1	14.4	14.7	13.9	14.9
$50 to $100	6.4	11.9	14.5	14.3	14.7	14.5	15.5
$100 to $250	8.7	12.9	14.3	14.1	14.4	14.4	16.1
$250 to $500	10.7	13.0	14.1	14.0	14.4	14.8	17.4
$500 to $1,000	11.0	13.3	14.2	14.1	14.2	15.7	17.4
$1,000 to $5,000	11.7	13.5	14.0	14.0	14.2	15.5	18.0
$5,000 to $10,000	11.8	13.9	14.3	13.3	13.8	15.5	18.9
$10,000 to $50,000	10.4	13.5	13.9	13.8	13.9	15.5	16.9
Over $50,000	12.0	13.6	14.5	14.6	13.7	15.4	15.9

CONSTRUCTION

Size classes based on total assets (in thousands)	1931	1932	1933	1934	1935	1936	1937
	Federal income taxes as percentages of compiled net profits						
Under $50	2.4	6.9	14.6	14.5	15.1	15.0	15.8
$50 to $100	6.7	9.1	13.9	14.1	15.1	16.2	16.4
$100 to $250	8.0	10.5	14.6	14.2	14.9	15.2	16.3
$250 to $500	9.4	11.8	14.2	13.4	14.3	16.4	18.7
$500 to $1,000	9.8	10.4	12.5	13.2	13.8	16.1	16.9
$1,000 to $5,000	10.4	10.9	11.9	12.8	14.3	15.5	17.3
$5,000 to $10,000	10.5	10.5	9.9	11.3	12.7	17.0	13.8
$10,000 to $50,000	7.2	11.0	11.9	11.7	12.5	15.3	------
Over $50,000	------	------	11.5	------	------	------	------

TABLE 13-A.—*Federal corporate income-tax payments, 1931–37, by size of corporations and industries*—Continued

CONSTRUCTION—Continued

Size classes based on total assets (in thousands)	1931	1932	1933	1934	1935	1936	1937
	Federal income taxes as percentages of taxable net income						
Under $50	2.4	7.0	14.7	14.7	15.2	15.0	17.0
$50 to $100	5.8	9.3	14.4	14.7	15.4	16.3	17.9
$100 to $250	8.2	11.0	15.6	14.6	14.9	15.3	17.7
$250 to $500	9.9	12.5	15.2	14.5	15.1	16.6	21.1
$500 to $1,000	10.2	12.1	14.3	14.5	14.7	16.4	19.3
$1,000 to $5,000	11.4	13.0	14.7	14.3	16.0	15.8	19.5
$5,000 to $10,000	11.7	13.7	13.8	13.7	13.8	17.1	16.4
$10,000 to $50,000	10.8	11.7	14.0	13.8	13.8	15.7	------
Over $50,000	------	------	------	------	------	------	------

PUBLIC UTILITIES

Size classes based on total assets (in thousands)	1931	1932	1933	1934	1935	1936	1937
	Federal income taxes as percentages of compiled net profits						
Under $50	3.4	11.9	14.6	14.5	14.8	13.7	14.1
$50 to $100	6.7	12.6	14.3	14.1	14.6	13.9	15.1
$100 to $250	8.3	12.6	14.1	13.6	14.3	14.5	15.6
$250 to $500	10.3	12.5	13.4	13.6	13.9	15.4	15.5
$500 to $1,000	11.1	12.3	13.6	13.5	13.9	15.2	16.0
$1,000 to $5,000	11.9	12.6	13.4	13.4	13.4	15.4	15.8
$5,000 to $10,000	11.2	12.6	12.8	13.2	13.2	15.1	15.6
$10,000 to $50,000	10.1	12.3	12.6	13.1	13.2	14.8	15.2
Over $50,000	7.4	10.2	10.3	9.9	9.9	11.3	15.2
	Federal income taxes as percentages of taxable net income						
Under $50	3.4	12.1	14.7	14.6	15.0	13.7	14.9
$50 to $100	6.9	12.7	14.5	14.3	14.8	13.9	16.2
$100 to $250	8.5	13.0	14.4	14.0	14.6	14.5	16.5
$250 to $500	10.6	13.1	13.9	13.7	14.3	15.5	16.4
$500 to $1,000	11.5	13.0	13.8	13.8	14.1	15.2	16.8
$1,000 to $5,000	11.6	13.6	14.0	13.8	14.0	15.4	16.7
$5,000 to $10,000	11.9	13.6	13.9	13.8	13.9	15.1	16.6
$10,000 to $50,000	11.6	13.8	13.9	13.8	13.9	14.9	15.9
Over $50,000	12.0	14.0	14.1	13.8	13.8	11.4	15.6

FINANCE

Size classes based on total assets (in thousands)	1931	1932	1933	1934	1935	1936	1937
	Federal income taxes as percentages of compiled net profits						
Under $50	2.6	11.5	12.7	13.3	13.7	11.3	11.9
$50 to $100	3.7	11.9	13.4	13.3	13.7	11.1	11.6
$100 to $250	5.3	11.2	13.0	12.5	12.7	11.1	11.0
$250 to $500	6.4	10.6	11.9	11.5	10.9	10.0	9.7
$500 to $1,000	6.5	9.2	10.7	9.6	9.4	9.2	8.4
$1,000 to $5,000	7.2	7.8	9.8	8.5	7.6	8.4	6.9
$5,000 to $10,000	7.0	6.8	7.4	7.2	7.6	7.0	6.3
$10,000 to $50,000	6.4	6.4	6.6	6.9	6.7	6.3	6.1
Over $50,000	6.0	6.2	5.2	3.1	3.1	4.0	5.2
	Federal income taxes as percentages of compiled net profits						
Under $50	2.8	12.0	14.2	14.3	14.6	11.3	14.3
$50 to $100	3.9	12.5	14.1	14.1	14.8	11.3	14.0
$100 to $250	5.9	12.5	14.2	14.1	14.5	11.2	14.5
$250 to $500	7.7	12.3	14.0	14.1	14.5	10.5	15.3
$500 to $1,000	8.7	12.2	14.2	14.0	14.4	10.0	16.3
$1,000 to $5,000	10.5	12.0	13.8	14.0	14.3	9.2	16.9
$5,000 to $10,000	11.1	12.6	13.5	13.7	14.2	7.6	18.1
$10,000 to $50,000	11.7	12.6	13.9	13.8	14.2	6.8	17.6
Over $50,000	11.5	13.7	14.1	13.8	14.0	4.5	21.2

TABLE 14.—*Federal corporate income-tax payments and credits for investment income, by size classes and industries, 1936–37*

Size classes based on total assets (in thousands)	1936—Normal tax as percent of—			1937—Normal tax as percent of—		
	Compiled net profit	Profits less 85 percent of dividends	Taxable net income [1]	Compiled net profit	Profits less 85 percent of dividends	Taxable net income [1]
	MANUFACTURING					
Under $50	11.5	11.5	11.6	9.8	9.8	10.0
$50 to $100	10.7	10.8	10.8	10.5	10.6	10.8
$100 to $250	11.6	11.8	11.8	11.4	11.6	11.8
$250 to $500	12.5	12.8	12.8	12.4	12.6	12.8
$500 to $1,000	13.2	13.5	13.6	13.1	13.4	13.7
$1,000 to $5,000	13.6	14.2	14.4	13.7	14.3	14.5
$5,000 to $10,000	13.6	14.5	14.7	13.7	14.6	14.8
$10,000 to $50,000	13.0	14.6	14.8	13.5	14.7	15.0
$50,000 to $100,000	12.4	14.6	14.8	13.4	14.9	15.0
Over $100,000	11.8	15.1	15.3	12.0	15.0	15.2
	FOOD					
Under $50	9.3	9.3	9.5	9.2	9.3	9.5
$50 to $100	10.1	10.2	10.4	9.9	10.0	10.2
$100 to $250	10.9	11.1	11.2	11.0	11.1	11.2
$250 to $500	12.2	12.4	12.7	11.9	12.1	12.2
$500 to $1,000	12.8	13.2	13.4	12.6	13.0	13.2
$1,000 to $5,000	13.5	14.1	14.4	13.6	14.1	14.4
$5,000 to $10,000	13.7	14.7	14.8	13.7	14.8	14.9
$10,000 to $50,000	13.4	14.9	15.0	13.6	14.8	14.9
$50,000 to $100,000	13.2	14.7	15.0	13.2	14.8	15.1
Over $100,000	12.2	14.9	15.0	11.3	15.8	15.9
	BEVERAGES					
Under $50	11.0	11.0	11.2	11.0	11.1	11.3
$50 to $100	11.7	11.8	11.9	11.7	11.8	12.0
$100 to $250	12.5	12.8	12.9	12.8	12.9	13.0
$250 to $500	13.5	13.6	13.7	13.5	13.6	13.7
$500 to $1,000	13.7	14.0	14.1	13.6	14.0	14.1
$1,000 to $5,000	14.3	14.6	14.7	14.2	14.4	14.6
$5,000 to $10,000	13.3	14.6	14.8	14.5	14.7	14.9
$10,000 to $50,000	14.6	14.8	15.0	13.7	14.6	14.9
$50,000 to $100,000	9.4	15.0	15.0	14.0	15.0	15.0
Over $100,000	---	---	---	---	---	---
	TOBACCO					
Under $50	10.4	10.4	10.4	9.8	9.8	9.8
$50 to $100	10.1	10.1	10.2	10.0	10.0	10.4
$100 to $250	11.0	11.2	11.2	11.1	11.3	11.5
$250 to $500	11.1	11.2	11.6	10.9	11.5	12.3
$500 to $1,000	12.6	12.8	12.8	13.0	13.0	13.1
$1,000 to $5,000	14.0	14.2	14.7	13.9	14.1	14.6
$5,000 to $10,000	13.2	14.6	14.7	13.2	14.6	14.7
$10,000 to $50,000	14.0	14.7	14.9	13.5	14.6	14.9
$50,000 to $100,000	13.9	14.5	15.0	14.6	14.8	15.0
Over $100,000	13.9	14.8	15.0	14.1	14.9	15.0
	TEXTILES					
Under $50	9.2	9.2	9.4	9.5	9.5	9.6
$50 to $100	9.8	9.8	10.0	9.1	10.1	10.3
$100 to $250	11.1	11.2	11.3	10.9	11.0	11.2
$250 to $500	12.1	12.3	12.4	12.0	12.1	12.3
$500 to $1,000	12.9	13.1	13.3	12.9	13.1	13.3
$1,000 to $5,000	13.5	14.1	14.3	13.4	14.0	14.3
$5,000 to $10,000	13.3	14.5	14.7	13.7	14.4	14.8
$10,000 to $50,000	14.0	14.7	14.9	14.0	14.6	14.9
$50,000 to $100,000	13.5	13.8	15.0	15.0	15.0	15.0
Over $100,000	---	---	---	7.6	12.3	15.0

[1] "Taxable net income" consists of compiled net profits less the sum of the following: (*a*) 85 percent of dividends received from domestic corporations subject to tax; (*b*) all interest received on governmental obligations; and (*c*) the amount of the excess-profits tax.

TABLE 14.—*Federal corporate income-tax payments and credits for investment income, by size classes and industries, 1936–37*—Continued

Size classes based on total assets (in thousands)	1936—Normal tax as percent of—			1937—Normal tax as percent of—		
	Compiled net profit	Profits less 85 percent of dividends	Taxable net income	Compiled net profit	Profits less 85 percent of dividends	Taxable net income
CLOTHING						
Under $50	9.1	9.2	9.2	9.0	9.0	9.1
$50 to $100	10.2	10.3	10.4	10.0	10.1	10.2
$100 to $250	11.0	11.1	11.2	11.0	11.1	11.2
$250 to $500	12.0	12.1	12.2	11.5	11.7	11.8
$500 to $1,000	12.6	13.3	13.4	12.9	13.0	13.0
$1,000 to $5,000	13.8	14.2	14.3	13.2	14.1	14.2
$5,000 to $10,000	13.9	14.4	14.8	13.0	14.5	14.5
$10,000 to $50,000	14.2	14.3	14.9	13.6	14.1	14.9
$50,000 to $100,000	--------	--------	--------	--------	--------	--------
Over $100,000	--------	--------	--------	--------	--------	--------
LEATHER						
Under $50	8.9	9.0	9.1	9.0	9.1	9.2
$50 to $100	10.0	10.0	10.1	10.1	10.1	10.2
$100 to $250	10.9	11.0	11.1	11.1	11.2	11.4
$250 to $500	11.6	11.9	12.0	11.6	12.2	12.4
$500 to $1,000	12.7	13.2	13.4	12.3	13.0	13.1
$1,000 to $5,000	13.7	14.2	14.4	13.6	14.1	14.3
$5,000 to $10,000	14.4	14.5	14.7	13.7	14.4	14.7
$10,000 to $50,000	12.9	12.9	12.9	11.6	14.7	14.8
$50,000 to $100,000	--------	--------	--------	14.9	15.0	15.0
Over $100,000	--------	--------	--------	--------	--------	--------
RUBBER						
Under $50	9.6	9.6	9.7	9.7	9.7	10.0
$50 to $100	10.0	10.0	10.1	10.4	10.6	10.7
$100 to $250	11.6	11.8	11.9	11.3	11.5	11.5
$250 to $500	12.7	12.8	13.0	12.7	12.7	12.9
$500 to $1,000	13.1	13.6	13.7	13.1	13.1	13.1
$1,000 to $5,000	13.7	14.1	14.4	14.1	14.3	14.5
$5,000 to $10,000	13.9	14.6	14.8	14.0	14.6	14.7
$10,000 to $50,000	13.8	14.8	14.8	13.1	14.8	14.8
$50,000 to $100,000	15.0	15.0	15.0	15.0	15.0	15.0
Over $100,000	10.9	14.9	14.9	4.1	15.0	15.0
FOREST PRODUCTS						
Under $50	9.2	9.3	9.7	9.2	9.3	9.5
$50 to $100	10.0	10.1	10.3	10.0	10.1	10.4
$100 to $250	10.9	11.0	11.3	11.0	11.0	11.2
$250 to $500	11.5	11.9	12.6	11.9	12.1	12.4
$500 to $1,000	12.5	13.1	14.0	12.5	12.9	13.2
$1,000 to $5,000	13.2	14.0	14.2	12.9	13.9	14.1
$5,000 to $10,000	13.7	14.4	14.7	13.1	14.4	14.6
$10,000 to $50,000	10.5	14.9	14.9	12.2	14.7	14.8
$50,000 to $100,000	12.0	14.7	15.0	6.5	13.6	14.9
Over $100,000	11.5	14.8	15.0	13.0	14.9	15.0
PAPER						
Under $50	9.0	9.4	9.7	9.5	9.5	9.7
$50 to $100	10.4	10.5	10.9	9.9	10.0	10.0
$100 to $250	11.4	11.6	11.9	11.2	11.4	11.6
$250 to $500	12.2	12.6	13.2	12.5	12.8	12.9
$500 to $1,000	13.0	13.4	14.0	12.8	13.2	13.4
$1,000 to $5,000	13.5	14.2	14.4	13.5	14.2	14.4
$5,000 to $10,000	14.0	14.5	14.8	13.9	14.5	14.8
$10,000 to $50,000	13.6	14.1	15.0	13.4	14.7	14.9
$50,000 to $100,000	--------	--------	--------	14.3	15.0	15.0
Over $100,000	9.8	14.9	14.9	9.9	14.5	15.0

TABLE 14.—*Federal corporate income-tax payments and credits for investment income, by size classes and industries, 1936–37*—Continued

Size classes based on total assets (in thousands)	1936—Normal tax as percent of—			1937—Normal tax as percent of—		
	Compiled net profit	Profits less 85 percent of dividends	Taxable net income	Compiled net profit	Profits less 85 percent of dividends	Taxable net income
			PRINTING			
Under $50	10.0	10.1	10.3	9.5	9.6	9.7
$50 to $100	10.3	10.4	10.6	10.1	10.2	10.4
$100 to $250	11.1	11.4	12.0	11.2	11.5	11.6
$250 to $500	12.0	12.7	13.8	12.1	12.4	12.6
$500 to $1,000	12.8	13.3	14.1	12.8	13.4	13.6
$1,000 to $5,000	13.3	14.2	14.4	13.2	14.1	14.4
$5,000 to $10,000	13.3	14.4	14.8	12.9	14.3	14.8
$10,000 to $50,000	10.3	13.1	13.4	11.7	14.6	14.9
$50,000 to $100,000	11.3	14.6	15.0	11.5	14.2	15.0
Over $100,000	----------	----------	----------	4.3	14.9	14.9
			CHEMICALS			
Under $50	9.9	9.9	10.0	9.8	9.8	9.9
$50 to $100	10.7	11.0	11.2	10.6	10.7	10.9
$100 to $250	11.7	11.8	12.0	11.6	11.8	12.0
$250 to $500	12.6	12.8	13.0	12.7	12.9	13.0
$500 to $1,000	13.6	13.8	14.0	13.4	13.8	14.0
$1,000 to $5,000	13.3	14.3	14.6	13.4	14.4	14.6
$5,000 to $10,000	13.0	14.6	14.9	13.3	14.6	14.9
$10,000 to $50,000	12.8	14.6	15.0	13.1	14.8	15.1
$50,000 to $100,000	12.1	15.0	15.0	12.7	15.0	15.0
Over $100,000	9.7	15.0	15.0	10.2	14.9	15.0
			PETROLEUM			
Under $50	9.6	9.6	9.8	9.1	9.1	9.2
$50 to $100	10.5	10.5	10.6	11.1	11.1	11.5
$100 to $250	12.1	12.2	12.4	12.6	12.6	12.8
$250 to $500	12.8	13.1	13.1	12.6	13.1	13.3
$500 to $1,000	13.7	13.9	14.0	13.9	14.0	14.1
$1,000 to $5,000	13.9	15.0	15.0	13.1	14.6	14.8
$5,000 to $10,000	14.2	14.9	14.9	13.7	14.5	14.8
$10,000 to $50,000	10.3	14.7	14.8	13.9	14.9	14.9
$50,000 to $100,000	10.7	15.0	15.0	11.3	14.6	14.9
Over $100,000	8.0	14.8	15.0	9.1	15.8	15.9
			STONE, CLAY, AND GLASS			
Under $50	9.3	9.3	9.6	9.2	9.2	9.5
$50 to $100	10.2	10.4	10.6	10.2	10.2	10.4
$100 to $250	11.6	11.8	11.9	11.4	11.6	11.7
$250 to $500	12.2	12.5	12.7	12.2	12.4	12.7
$500 to $1,000	13.0	13.3	13.5	13.2	13.4	13.7
$1,000 to $5,000	13.5	14.2	14.4	13.7	14.2	14.4
$5,000 to $10,000	13.3	14.5	14.8	13.6	14.5	14.7
$10,000 to $50,000	12.7	14.7	14.9	13.5	14.7	14.9
$50,000 to $100,000	13.4	15.0	15.0	13.7	14.9	15.0
Over $100,000	13.7	14.7	15.0	13.4	14.8	15.0
			METALS			
Under $50	9.3	9.4	9.6	10.1	10.2	10.4
$50 to $100	10.5	10.6	10.8	10.6	10.6	10.9
$100 to $250	11.6	11.7	11.9	11.5	11.6	11.9
$250 to $500	12.6	12.8	13.0	12.6	12.8	13.0
$500 to $1,000	13.4	13.5	13.8	13.3	13.5	13.8
$1,000 to $5,000	13.8	13.9	14.1	13.9	14.3	14.6
$5,000 to $10,000	13.9	14.6	14.9	13.9	14.6	14.9
$10,000 to $50,000	13.4	14.7	15.0	13.7	14.6	14.9
$50,000 to $100,000	12.9	14.7	15.0	14.1	15.0	15.1
Over $100,000	12.5	14.8	15.0	13.1	14.8	15.0

TABLE 14.—*Federal corporate income-tax payments and credits for investment income, by size classes and industries, 1936–37*—Continued

Size classes based on total assets (in thousands)	1936—Normal tax as percent of—			1937—Normal tax as percent of—		
	Compiled net profit	Profits less 85 percent of dividends	Taxable net income	Compiled net profit	Profits less 85 percent of dividends	Taxable net income
	MOTOR VEHICLES					
Under $50	9.2	9.4	9.7	10.0	10.0	10.2
$50 to $100	10.5	10.6	10.8	11.5	11.5	11.7
$100 to $250	11.7	12.1	12.2	11.8	12.0	12.3
$250 to $500	12.6	12.8	12.9	13.2	13.2	13.4
$500 to $1,000	13.9	14.1	14.2	13.8	14.0	14.1
$1,000 to $5,000	14.4	14.6	14.7	14.2	14.6	14.7
$5,000 to $10,000	14.0	14.5	14.9	14.2	14.4	14.9
$10,000 to $50,000	14.0	14.9	14.9	14.4	14.8	15.0
$50,000 to $100,000	13.6	14.9	15.0	11.9	14.2	15.0
Over $100,000	13.7	14.9	15.0	13.4	14.9	15.0
	MINING					
Under $50	10.3	10.3	10.5	10.4	10.4	10.6
$50 to $100	10.5	11.0	11.1	10.8	11.0	11.2
$100 to $250	11.5	12.0	12.1	11.4	11.7	11.9
$250 to $500	12.0	12.8	12.9	12.5	12.9	13.1
$500 to $1,000	12.2	13.3	13.5	12.5	13.4	13.6
$1,000 to $5,000	12.7	14.3	14.6	12.8	14.3	14.6
$5,000 to $10,000	12.3	14.4	14.8	12.0	14.3	14.8
$10,000 to $50,000	12.4	14.7	15.0	12.8	14.4	15.0
$50,000 to $100,000	12.9	14.2	15.2	13.1	14.4	15.0
Over $100,000	7.9	14.8	15.0	9.8	14.8	15.0
	TRADE					
Under $50	9.1	9.2	9.3	9.1	9.2	9.3
$50 to $100	10.0	10.1	10.3	10.0	10.1	10.2
$100 to $250	10.9	11.1	11.2	10.8	11.0	11.1
$250 to $500	11.7	12.0	12.2	11.7	12.1	12.3
$500 to $1,000	12.5	13.2	13.2	12.5	13.0	13.2
$1,000 to $5,000	13.3	14.0	14.2	13.4	14.0	14.3
$5,000 to $10,000	13.7	14.6	14.8	13.6	14.5	14.8
$10,000 to $50,000	13.5	14.8	15.0	13.5	14.7	14.9
$50,000 to $100,000	11.6	14.9	15.0	12.8	15.0	15.1
Over $100,000	14.1	14.7	15.0	12.6	14.9	15.0
	SERVICE					
Under $50	10.1	10.2	10.3	10.2	10.2	10.4
$50 to $100	10.9	11.1	11.2	10.7	10.9	11.1
$100 to $250	11.0	11.6	11.7	11.2	11.6	11.8
$250 to $500	11.6	12.6	12.7	11.6	12.4	12.6
$500 to $1,000	12.1	13.2	13.4	12.0	13.0	13.2
$1,000 to $5,000	12.4	14.1	14.3	12.7	14.1	14.3
$5,000 to $10,000	11.6	14.5	14.6	12.3	14.8	15.0
$10,000 to $50,000	12.6	14.8	14.9	12.0	14.7	14.7
$50,000 to $100,000	12.4	15.0	15.0	12.8	15.0	15.0
Over $100,000						
	CONSTRUCTION					
Under $50	9.3	9.4	9.6	9.4	9.5	9.8
$50 to $100	10.4	10.6	10.9	10.2	10.3	10.7
$100 to $250	10.7	11.3	11.6	11.1	11.4	11.7
$250 to $500	12.1	12.8	13.1	11.9	12.5	13.0
$500 to $1,000	11.9	14.0	14.7	11.9	12.8	13.4
$1,000 to $5,000	13.0	14.1	14.6	13.1	14.1	14.5
$5,000 to $10,000	13.7	14.6	14.9	12.4	14.3	14.7
$10,000 to $50,000	13.9	14.0	14.9	13.7	14.2	14.8
$50,000 to $100,000				12.7	14.2	14.6
Over $100,000						

TABLE 14.—*Federal corporate income-tax payments and credits for investments income, by size classes and industries, 1936–37*—Continued

Size classes based on total assets (in thousands)	1936—Normal tax as percent of—			1937—Normal tax as percent of—		
	Compiled net profit	Profits less 85 percent of dividends	Taxable net income	Compiled net profit	Profits less 85 percent of dividends	Taxable net income
	PUBLIC UTILITIES					
Under $50	9.4	9.5	9.6	9.5	9.6	9.7
$50 to $100	10.8	10.9	11.1	10.7	10.9	11.1
$100 to $250	11.8	11.9	12.1	11.7	11.9	12.1
$250 to $500	12.2	12.5	12.6	12.1	12.4	12.6
$500 to $1,000	13.0	13.3	13.4	13.1	13.3	13.4
$1,000 to $5,000	13.8	14.4	14.5	13.7	14.1	14.2
$5,000 to $10,000	14.1	14.5	14.6	14.0	14.5	14.7
$10,000 to $50,000	14.2	14.7	14.9	14.3	14.7	14.9
$50,000 to $100,000	14.4	15.0	15.0	14.6	14.9	14.9
Over $100,000	10.2	15.0	15.4	10.5	14.9	15.1
	FINANCE					
Under $50	8.5	10.3	10.5	8.8	10.5	10.8
$50 to $100	8.4	10.3	10.6	8.4	10.2	10.5
$100 to $250	8.6	11.0	11.7	8.7	11.0	11.7
$250 to $500	8.0	10.9	12.9	8.0	10.9	13.1
$500 to $1,000	7.3	10.7	14.0	7.0	10.6	14.3
$1,000 to $5,000	6.5	10.9	15.0	5.7	10.3	15.5
$5,000 to $10,000	5.4	10.9	15.0	5.3	11.0	16.7
$10,000 to $50,000	5.2	10.5	14.9	5.2	11.0	16.4
$50,000 to $100,000	4.4	10.6	14.6	4.7	12.6	18.8
Over $100,000	3.0	7.9	15.0	3.5	9.9	20.7

Source: Computed from the Sourcebook of the Statistical Section of the Bureau of Internal Revenue.

TABLE 15.—*Federal corporate income-tax payments and credits for investment income, by minor industries, 1937*

	Normal tax as a percentage of—			Surtax on undistributed profits as a percentage of—		Excess-profits tax as a percentage of—		Total tax as a percentage of corporate profits	Cash dividends paid out as a percentage of corporate profits
	Corporate profits	Profits less credit for dividends	Taxable net income	Corporate profits	Taxable net income	Corporate profits	Taxable net income		
MANUFACTURING:									
Food	12.1	14.3	14.4	1.3	1.5	0.3	0.3	14.2	84.9
Baking and confectionery products	13.6	14.1	14.3	1.6	1.6	.3	.3	15.5	78.3
Canned products	13.5	14.1	14.2	1.7	2.0	.3	.4	15.6	67.5
Mill products	12.8	13.6	14.0	1.7	2.0	.3	.3	14.8	79.4
Packing-house products	9.6	16.0	16.1	.9	1.0	.3	.3	10.7	106.4
Sugar	12.5	14.9	15.0	.4	.4	.1	.2	13.0	98.3
Other food products	12.5	14.0	14.2	1.2	1.4	.2	.3	14.0	87.2
Beverages	13.8	14.3	14.4	3.5	4.1	.6	.6	17.8	60.6
Nonalcoholic	13.5	14.0	14.2	2.4	2.8	.7	.7	16.6	68.0
Alcoholic	14.0	14.4	14.6	4.2	5.0	.5	.5	18.7	55.3
Tobacco	14.0	14.8	14.9	.7	.8	.1	.1	14.7	85.7
Textiles	13.0	13.7	14.1	2.5	2.9	.5	.6	16.1	74.2
Cotton	13.5	13.9	14.2	3.4	4.0	1.0	1.0	17.9	64.2
Woolen and worsted	12.3	13.4	13.7	4.3	5.0	.4	.5	17.1	78.2
Silk and rayon	12.5	13.9	14.7	1.6	1.9	.3	.4	14.4	88.1
Carpets	14.1	14.2	14.5	2.3	2.8	.3	.3	16.7	91.2
Other textiles	13.1	13.7	14.0	1.7	2.0	.4	.4	15.2	74.4
Clothing and apparel	12.3	12.7	12.9	2.8	3.2	.3	.4	15.5	66.9
Knit goods	12.9	13.3	13.5	3.2	3.6	.3	.4	16.4	66.7
Leather	13.1	13.7	13.8	1.8	2.0	.2	.3	15.1	85.9
Shoes	13.4	14.0	14.1	1.3	1.4	.2	.2	14.8	86.6
Other leather products	12.4	12.9	13.1	3.0	3.4	.4	.5	15.9	76.0

TABLE 15.—*Federal corporate income-tax payments and credits for investment income, by minor industries, 1937*—Continued

	Normal tax as a percentage of—			Surtax on undistributed profits as a percentage of—		Excess-profits tax as a percentage of—		Total tax as a percentage of corporate profits	Cash dividends paid out as a percentage of corporate profits
	Corporate profits	Profits less credit for dividends	Taxable net income	Corporate profits	Taxable net income	Corporate profits	Taxable net income		
MANUFACTURING—Con.									
Rubber	10.8	14.3	14.5	2.3	2.5	0.2	0.3	13.4	90.2
Tires and tubes	8.7	14.8	14.9	1.5	1.6	(1)	.1	10.2	112.5
Bone, celluloid, and ivory products	14.1	14.2	14.5	2.0	2.3	.5	.5	16.6	68.1
Other rubber	13.4	13.9	14.1	3.6	4.1	.5	.5	17.5	61.6
Forest products	12.2	13.2	13.4	2.2	2.5	.9	1.0	15.4	69.9
Sawmill and planing-mill products	12.4	13.5	13.7	1.2	1.3	.7	.8	14.4	76.1
Furniture and other wood products	12.5	12.8	13.1	3.5	4.0	1.1	1.3	16.6	62.1
Paper	13.2	14.7	14.9	2.9	3.4	.5	.5	16.7	64.9
Printing and publishing	11.9	13.6	13.9	2.6	3.0	.3	.4	14.8	67.0
Chemicals	12.3	14.4	14.6	1.4	1.7	.2	.3	13.9	75.1
Chemicals proper	11.8	14.8	14.8	1.2	.1	1.2	1.2	13.2	75.1
Petroleum	10.0	15.3	15.5	1.3	1.4	.2	.4	11.5	90.7
Fertilizers	11.9	13.5	13.7	2.5	.8	2.5	2.8	15.2	74.4
Paints	12.8	14.1	14.3	2.3	.3	2.2	2.5	15.4	74.3
Other chemicals	12.6	14.2	14.5	1.4	.3	1.4	1.6	14.3	75.1
Stone, clay, and glass	13.3	14.2	14.5	1.8	1.9	.5	.6	15.7	71.2
Metals	13.4	14.3	14.5	3.0	3.5	.9	1.0	17.3	61.9
Iron and steel	13.2	14.4	14.6	2.6	2.8	.9	1.0	16.8	64.3
Motor vehicles	13.5	14.8	14.9	2.0	2.2	.1	.1	15.7	66.3
Railroad equipment	13.4	14.7	15.1	2.5	2.8	.9	1.1	16.6	71.9
Machinery:									
Factory	13.2	13.9	14.3	3.0	3.2	1.0	1.0	17.3	61.3
Agricultural	13.4	14.6	14.8	4.9	5.3	.8	1.0	19.2	44.2
Electrical	13.3	14.6	14.8	1.7	1.8	.3	.3	15.3	73.2
Household	13.1	13.9	14.5	2.2	2.3	.2	.2	15.5	66.1
Miscellaneous	13.7	14.1	14.4	4.0	4.1	1.6	1.9	19.4	53.6
Office equipment	14.1	14.6	14.8	3.0	3.5	.5	.5	17.6	59.7
Metal building materials, supplies	13.1	14.0	14.3	2.6	3.1	1.0	1.1	16.8	63.2
Hardware and tools	13.7	14.0	14.4	4.0	4.8	1.5	1.6	19.2	55.0
Precious metals	13.5	13.9	14.2	3.1	3.7	1.1	1.2	17.7	57.7
Other metal products	13.4	14.4	14.5	2.2	2.6	.6	.7	16.3	69.1
Miscellaneous manufacturing	13.3	14.2	14.4	3.1	3.6	.6	.7	17.0	63.0
Radios	13.8	14.3	14.4	3.5	4.1	.4	.4	17.7	66.9
Airplanes	13.3	15.0	15.3	4.3	5.0	.7	.8	18.4	48.4
Instruments, etc	13.3	14.1	14.3	2.9	3.4	.6	.7	16.8	64.3
Total manufacturing	12.9	14.4	14.6	2.3	2.7	.5	.6	15.7	70.1
MINING	11.9	14.1	14.5	1.2	1.5	1.0	1.2	14.1	86.1
Metal	11.7	14.5	14.7	1.1	1.3	1.2	1.5	14.1	82.5
Anthracite coal	11.5	11.9	13.9	1.3	1.7	.1	.2	12.8	101.6
Bituminous, lignite, and peat	11.6	13.4	13.9	2.3	2.7	.4	.5	14.3	76.8
Oil and gas	11.6	14.0	14.4	1.3	1.5	.6	.7	13.4	94.1
Other minerals	13.1	13.8	14.0	1.4	1.6	.5	.5	14.9	82.8
N. E. C., lessees and holders	12.6	13.6	14.0	.9	1.1	2.1	2.3	15.7	88.7
TRADE	12.4	13.4	13.5	2.7	3.2	.6	.7	15.8	65.8
Wholesale	12.3	13.3	13.5	3.0	3.4	.9	1.0	16.2	65.1
Retail	12.9	13.5	13.7	2.7	3.2	.4	.4	16.0	65.4
Wholesale and retail	11.8	13.1	13.4	2.5	2.9	.8	.9	15.2	66.1
Commission	11.2	13.2	13.5	3.1	3.5	.6	.8	14.9	64.7
Other trade	11.6	13.6	13.7	1.0	1.1	.4	.5	12.9	83.9
SERVICE	11.6	12.8	13.0	2.7	3.1	.7	.8	15.1	64.8
Domestic	11.2	11.8	12.0	3.2	3.7	.6	.7	15.0	63.2
Amusements	11.5	13.4	13.5	2.3	2.6	.6	.7	14.4	65.2
Theaters	10.9	12.8	12.9	1.8	2.1	.6	.8	13.4	73.9
Motion-picture producers	9.6	15.3	15.4	1.5	1.7	.1	.1	11.1	54.8
Motion-picture theaters	11.6	13.1	13.2	2.0	2.3	.5	.6	14.2	71.0
Other amusements	13.0	13.2	13.4	4.0	4.7	1.2	1.2	18.2	52.2

[1] Less than 0.05 of 1 percent.

TABLE 15.—*Federal corporate income-tax payments and credits for investment income, by minor industries, 1937*—Continued

	Normal tax as a percentage of—			Surtax on undistributed profits as a percentage of—		Excess-profits tax as a percentage of—		Total tax as a percentage of corporate profits	Cash dividends paid out as a percentage of corporate profits
	Corporate profits	Profits less credit for dividends	Taxable net income	Corporate profits	Taxable net income	Corporate profits	Taxable net income		
SERVICE—Continued.									
Professional	11.6	12.2	12.6	3.4	4.0	1.6	1.7	16.6	62.7
Business	12.3	13.4	13.6	2.9	3.3	.8	.9	16.0	65.4
Other service	12.0	13.1	13.4	2.1	2.5	.6	.7	14.7	69.8
CONSTRUCTION	12.1	12.8	13.2	3.4	4.0	1.6	1.8	17.1	60.0
Above ground	11.4	11.7	12.2	4.2	4.9	2.3	2.4	17.9	49.6
Underground and on surface	12.1	13.0	13.4	3.3	3.9	1.5	1.7	17.0	64.5
Shipbuilding	13.7	14.1	14.4	2.1	2.5	1.0	1.0	16.8	56.4
PUBLIC UTILITIES	12.2	14.6	14.7	.7	.8	.2	.3	13.1	88.1
Transportation	12.6	14.3	14.5	1.3	1.6	.4	.4	14.4	79.4
Steam railroads	12.2	14.8	15.1	1.1	1.3	.1	.1	13.4	84.5
Electric railroads	14.0	14.7	14.9	.8	1.0	.1	.1	14.9	81.5
Water transportation	13.0	13.9	14.2	2.3	2.7	1.0	1.1	16.3	67.4
Air	13.4	13.7	14.2	1.1	1.3	2.4	2.5	16.8	84.1
Autobus	12.6	13.7	13.8	1.9	2.2	.3	.4	14.8	73.8
Cartage and storage	11.8	12.3	12.5	2.2	2.5	.9	1.0	14.9	71.5
Other public utilities:									
Electric light and power	13.7	14.8	14.9	.4	.5	.3	.3	14.4	94.1
Gas	13.2	14.5	14.7	1.3	1.5	.2	.2	14.7	86.2
Telephone and telegraph	8.7	14.7	14.9	.1	.1	(1)	(1)	8.8	94.9
Radiobroadcasting	13.8	14.0	14.2	2.0	2.3	.7	.7	16.5	65.7
Water	13.1	13.2	13.3	1.0	1.1	.2	.2	14.3	83.4
Pipelines	14.8	14.8	14.9	.7	.8	.3	.3	15.7	78.2
Terminals	14.1	14.2	14.3	.8	.9	.3	.3	15.1	88.5
FINANCE	4.8	10.7	16.5	1.1	1.4	.1	.3	6.0	75.2
Banking	4.8	5.3	18.7	.6	2.1	.3	.4	5.7	54.0
National banks	2.8	2.9	54.3			.1	2.0	2.9	47.9
State and private banks	3.8	4.1	31.7			.2	3.0	4.0	45.9
Joint-stock land banks	11.3	11.3	14.6					11.3	589.6
Loan companies	12.1	14.1	14.5	2.0	2.3	.4	.4	14.4	74.5
Investment trusts, etc	3.0	16.5	17.6	1.3	1.3	.1	.3	4.3	89.1
Stock and bond brokers	7.4	12.4	14.9	3.8	4.6	.3	.6	11.6	68.8
Real estate	9.6	11.7	12.1	2.3	2.6	.6	.8	12.5	74.3
Insurance	9.0	12.2	15.2	(1)	(1)	(1)	(1)	9.0	33.9
Life	4.9	5.3	22.2					4.9	49.1
Other	9.2	12.5	15.1	(1)	(1)	(1)	(1)	9.2	33.4
Grand total	10.7	13.7	14.6	1.8	2.1	.4	.6	13.0	74.2

1 Less than 0.05 of 1 percent.

Source: Computed from the Source book of the Statistical Section of the Bureau of Internal Revenue.

TABLE 16.—*Federal taxes and corproate income paid out as cash dividends or available for reinvestment or industrial replacement by small, medium-sized, large, and giant corporations, 1931–37*

[In millions of dollars]

PART I

SMALL CORPORATIONS (ASSETS UNDER $50,000)

	1931	1932	1933	1934	1935	1936	1937
Corporate profits before taxes	378	174	278	433	514	699	641
Federal normal tax	21	20	37	58	69	73	66
Excess-profits tax			2	2	4	6	9
Undistributed profits tax						18	18
Total Federal taxes	21	20	39	60	73	97	93
Corporate profits after taxes	357	154	239	373	441	602	548
Cash dividends paid out	191	102	88	212	216	436	401
Depreciation and depletion	378	94	127	172	188	223	226
Income available for reinvestment and replacement	544	148	278	333	413	389	373

MEDIUM-SIZED CORPORATIONS (ASSETS FROM $250,000 TO $5,000,000)

	1931	1932	1933	1934	1935	1936	1937
Corporate profits before taxes	931	537	891	1,367	1,736	2,415	2,286
Federal normal tax	88	61	113	171	212	287	272
Excess-profits tax			3	3	10	10	63
Undistributed profits tax						58	17
Total Federal taxes	88	61	116	174	222	355	352
Corporate profits after taxes	843	476	775	1,193	1,514	2,060	1,934
Cash dividends paid out	635	363	373	820	1,024	1,537	1,500
Depreciation and depletion	365	234	328	467	509	605	642
Income available for reinvestment and replacement	573	347	730	840	999	1,128	1,076

LARGE CORPORATIONS (ASSETS FROM $5,000,000 TO $50,000,000)

	1931	1932	1933	1934	1935	1936	1937
Corporate profits before taxes	1,028	629	941	1,462	1,859	2,524	2,518
Federal normal tax	96	69	110	167	205	285	294
Excess-profits tax			1	1	5	3	44
Undistributed profits tax						37	10
Total Federal taxes	96	69	111	168	210	325	348
Corporate profits after taxes	932	560	830	1,294	1,669	2,199	2,170
Cash dividends paid out	821	509	606	1,156	1,463	1,814	1,796
Depreciation and depletion	355	260	353	535	570	665	708
Income available for reinvestment and replacement	466	311	577	673	776	1,050	1,082

GIANTS (ASSETS OVER $50,000,000)

	1931	1932	1933	1934	1935	1936	1937
Corporate profits before taxes	2,305	1,358	1,409	2,051	2,606	3,709	4,126
Federal normal tax	187	132	150	183	212	338	400
Excess-profits tax			1		6	1	47
Undistributed profits tax						28	5
Total Federal taxes	187	132	151	183	218	367	452
Corporate profits after taxes	2,118	1,226	1,258	1,868	2,388	3,342	3,674
Cash dividends paid out	2,197	1,335	1,289	1,608	1,915	3,180	3,397
Depreciation and depletion	891	691	803	677	777	1,065	1,234
Income available for reinvestment and replacement	802	572	772	937	1,250	1,227	1,511

TABLE 16.—*Federal taxes and corporate income paid out as cash dividends or available for reinvestment or industrial replacement by small, medium-sized, large, and giant corporations, 1931–37*—Continued

[In millions of dollars]

PART II

[1932=100]

	Corporate profits before taxes	Corporate profits after taxes		Cash dividends paid out	Depreciation and depletion	Income available for reinvestment and replacement
		Excluding undistributed	Including profits tax			
Small corporations:						
1931	217	232		187	402	368
1932	100	100		100	100	100
1933	160	155		86	135	188
1934	249	242		208	183	225
1935	295	286		212	200	279
1936	402	403	391	432	237	263
1937	368	368	356	393	241	252
Medium-sized corporations:						
1931	173	177		175	156	165
1932	100	100		100	100	100
1933	166	162		103	140	210
1934	255	251		226	200	242
1935	323	318		283	218	288
1936	450	445	433	423	259	325
1937	426	410	406	413	274	310
Large corporations:						
1931	163	166		161	137	150
1932	100	100		100	100	100
1933	150	148		119	136	186
1934	232	231		227	206	216
1935	296	298		287	219	250
1936	401	399	393	356	256	338
1937	400	389	388	353	272	348
Giants:						
1931	170	173		165	129	140
1932	100	100		100	100	100
1933	104	103		97	116	135
1934	151	152		120	98	164
1935	192	195		143	112	219
1936	273	275	273	238	154	215
1937	304	300	300	254	179	264

PART III. RATE OF CHANGE IN PROFITS (BEFORE TAXES), 1932–37

[1932=100]

	Small	Medium-sized	Large	Giants
Corporate profits before taxes	100	100	100	100
Corporate profits after taxes (excluding undistributed-profits tax)	100	96	97	99
Corporate profits after taxes (including undistributed-profits tax)	97	95	97	98
Depreciation and depletion	65	64	68	59
Income available for reinvestment and replacement	68	73	87	87

Source: Computed from Statistics of Income for respective years.

TABLE 17

PART I. NORMAL AND EXCESS-PROFITS TAXES AS PERCENT OF NET BEFORE INTEREST, BY PROFIT RATE AND EQUITY RATIO CLASSES, 1934-37

1. By profit rate classes, 1934-37					2. By profit rate and size classes, 1937					
Profit rate classes	1934	1935	1936	1937	Under $1,000,000	$1,000,000 to $5,000,000	$5,000,000 to $10,000,000	$10,000,000 to $50,000,000	$50,000,000 to $200,000,000	Over $200,000,000
Under 5 percent	9.3	8.9	11.4	9.5	11.3	14.1	3.9	9.8	4.0	11.5
5 to 10 percent	8.9	10.5	9.5	13.4	11.5	13.3	10.4	12.1	10.5	14.9
10 to 15 percent	11.8	11.1	13.5	13.4	11.7	12.9	14.3	14.2	13.4	13.1
15 to 20 percent	11.0	13.2	12.7	12.5	9.4	14.0	14.3	16.5	14.4	10.3
20 to 25 percent	12.5	13.5	13.7	14.6	15.5	14.7	14.5	11.8	14.8	14.8
25 to 30 percent	11.7	14.2	13.2	13.7	12.1	14.2	13.8	13.8	----	13.7
30 to 35 percent	15.6	15.3	14.7	12.1	11.3	10.7	15.9	11.6	----	----
35 to 40 percent	12.8	17.3	15.2	14.0	8.8	12.0	17.7	----	----	----
Over 40 percent	12.2	15.2	15.9	15.9	----	15.9	15.4	15.8	15.9	----

3. By equity ratio classes, 1934-37					4. By equity ratio and size classes, 1937					
Equity ratio classes	1934	1935	1936	1937	Under $1,000,000	$1,000,000 to $5,000,000	$5,000,000 to $10,000,000	$10,000,000 to $50,000,000	$50,000,000 to $200,000,000	Over $200,000,000
Under 2	8.6	13.0	12.4	13.2	9.1	12.5	11.9	11.8	13.9	13.6
2 to 4	9.7	9.0	10.1	14.0	13.2	12.2	14.8	13.4	15.8	13.1
4 to 8	11.5	12.1	13.1	14.7	12.2	14.9	14.6	14.1	12.6	15.4
8 to 12	12.6	14.3	15.4	13.9	12.9	14.7	13.9	15.6	11.8	----
12 to 16	14.2	12.7	12.9	12.5	11.3	12.5	12.9	11.7	11.6	12.7
16 to 20	12.9	14.8	10.7	10.3	16.0	13.3	10.9	12.7	11.3	9.6
Over 20	9.6	6.6	8.3	10.7	----	13.9	7.7	12.3	11.2	9.5

Table 17—Continued

PART II. FEDERAL CAPITAL STOCK TAX AS PERCENT OF NET BEFORE INTEREST

1. By profit rate classes, 1934–37					2. By profit rate and size classes, 1937					
Profit rate classes	1934	1935	1936	1937	Under $1,000,000	$1,000,000 to $5,000,000	$5,000,000 to $10,000,000	$10,000,000 to $50,000,000	$50,000,000 to $200,000,000	Over $200,000,000
Under 5 percent	2.5	3.2	2.0	3.0	9.3	4.0	2.8	3.4	5.1	1.6
5 to 10 percent	1.8	1.7	1.3	1.5	1.6	1.9	1.6	1.6	1.4	1.5
10 to 15 percent	1.0	1.2	1.4	1.1	2.3	1.5	1.1	1.3	1.2	.9
15 to 20 percent	.9	1.4	1.1	1.0	1.3	1.5	1.3	1.3	1.2	.8
20 to 25 percent	1.0	.9	1.1	1.2	.8	1.1	1.1	1.2	1.8	1.1
25 to 30 percent	.2	1.1	1.1	.9	2.1	1.0	.9	.9	----------	.9
30 to 35 percent	1.0	1.1	1.2	1.2	1.4	1.1	.8	1.2	----------	----------
35 to 40 percent	.9	1.0	1.2	.8	1.6	.8	.8	----------	----------	----------
Over 40 percent	1.8	.9	1.3	1.1	----------	1.0	.8	1.1	1.2	----------

3. By equity ratio classes, 1934–37					4. By equity ratio and size classes, 1937					
Equity ratio classes	1934	1935	1936	1937	Under $1,000,000	$1,000,000 to $5,000,000	$5,000,000 to $10,000,000	$10,000,000 to $50,000,000	$50,000,000 to $200,000,000	Over $200,000,000
Under 2	1.7	1.2	1.4	1.5	1.6	1.3	1.2	1.2	1.4	1.7
2 to 4	2.3	1.5	1.0	1.2	1.8	1.3	1.2	1.8	1.2	1.1
4 to 8	1.5	1.2	1.3	1.2	1.5	1.2	1.2	1.3	1.2	1.2
8 to 12	2.0	2.4	1.4	1.3	1.8	1.3	1.0	1.2	1.5	----------
12 to 16	1.5	1.9	1.5	1.5	11.3	1.5	1.0	1.6	1.2	1.5
16 to 20	1.6	1.5	.8	.9	1.4	1.4	1.6	1.2	1.3	.7
Over 20	1.6	1.1	1.8	1.0	----------	2.1	3.3	1.3	1.1	.8

PART III. UNDISTRIBUTED PROFITS TAX AS PERCENT OF NET BEFORE INTEREST

1. By profit rate classes, 1936–37					2. By profit rate and size classes, 1937					
Profit rate classes			1936	1937	Under $1,000,000	$1,000,000 to $5,000,000	$5,000,000 to $10,000,000	$10,000,000 to $50,000,000	$50,000,000 to $200,000,000	Over $200,000,000
Under 5 percent			0.5	1.3	14.7	3.0	1.3	1.6	2.3	
5 to 10 percent			1.1	1.7	1.7	2.5	1.5	1.5	.6	2.2
10 to 15 percent			1.2	2.7		2.4	3.6	1.9	2.3	3.1
15 to 20 percent			1.2	1.2	.7	3.5	1.9	1.3	1.3	1.0
20 to 25 percent			1.3	2.2	1.7	4.3	3.1	1.2		2.3
25 to 30 percent			.9	1.2	2.0	3.0	2.1	1.3		.7
30 to 35 percent			1.4	1.4	1.4	1.0	2.5	1.2		
35 to 40 percent			2.6	4.4		1.5	9.7			
Over 40 percent			1.7	2.0		2.0	2.0	1.8	2.0	

3. By equity ratio classes, 1936–37					4. By equity ratio and size classes, 1937					
Equity ratio classes			1936	1937	Under $1,000,000	$1,000,000 to $5,000,000	$5,000,000 to $10,000,000	$10,000,000 to $50,000,000	$50,000,000 to $200,000,000	Over $200,000,000
Under 2			1.6	2.8	0.3	2.5	4.2	1.3	2.8	3.8
2 to 4			1.0	2.2	2.1	4.8	2.1	2.8	2.5	1.7
4 to 8			1.4	2.3	4.1	2.6	2.7	1.7	1.3	2.7
8 to 12			1.0	1.2	1.1	1.5	2.6	1.6	.4	
12 to 16			.3	1.1	14.7	1.0	.1	1.0	.2	1.3
16 to 20			1.9	.8		3.0	.3	1.1		.8
Over 20			.1	.2		.7	.3	.3	.3	

Source: Department of Commerce Survey of Business Taxation.

TABLE 18.—*Federal corporate income tax payments as percent of net before interest, by profit rate and equity ratio classes and industries, 1937*

PART I. BY PROFIT RATE CLASSES

[For number of cases, see appendix E, table II, Part 1, p. 141]

PROFIT RATE	Food	Beverages	Tobacco	Textiles	Lumber	Paper	Printing	Chemicals	Petroleum	Leather	Rubber	Building products	Iron and steel	Non ferrousmetals	Machinery	Transportation equipment	Miscellaneous manufacturing	Chain stores	Department stores	Wholesale	Miscellaneous merchandise
	Federal normal income and excess-profits taxes as percent of net before interest																				
Under 5 percent	14.2	------	0.1	12.5	------	7.5	10.0	9.6	7.7	4.0	4.0	3.9	11.3	9.2	9.6	18.4	------	19.3	17.0	2.4	------
5 to 10 percent	12.3	12.6	12.5	11.0	12.5	11.9	13.2	12.3	9.5	14.2	8.5	11.0	19.1	12.4	10.5	12.7	12.4	15.2	12.8	11.8	1.9
10 to 15 percent	14.7	15.5	13.6	12.0	12.0	12.8	13.1	14.2	9.6	14.4	12.0	12.2	15.3	12.2	16.7	12.9	10.5	15.1	14.5	14.5	------
15 to 20 percent	14.3	11.5	13.6	16.1	------	14.8	------	11.2	6.0	------	17.7	8.7	12.8	9.3	13.0	14.9	16.0	10.0	16.3	------	13.1
20 to 25 percent	19.7	14.7	11.9	14.5	------	15.0	15.0	15.8	------	------	------	16.3	13.9	15.9	15.2	14.8	7.2	15.2	------	------	16.1
25 to 30 percent	17.0	------	15.2	15.2	------	13.2	13.6	12.8	------	------	------	15.9	15.7	10.8	13.7	16.7	13.4	15.0	13.9	------	17.5
30 to 35 percent	9.8	6.3	------	------	------	------	------	17.8	16.0	------	------	12.5	------	------	14.3	15.4	13.5	------	------	------	------
35 to 40 percent	15.0	------	------	------	------	------	------	------	4.6	------	------	------	15.1	------	17.0	15.9	------	------	------	------	------
Over 40 percent	------	------	------	------	------	------	------	13.4	4.6	------	14.7	------	11.3	------	20.8	------	------	------	------	------	------
	Surtax on undistributed profits as percent of net before interest																				
Under 5 percent	0.7	------	------	4.2	------	(2)	(2)	5.0	(2)	(2)	2.3	(2)	(2)	1.7	0.6	3.4	------	1.7	(1)	(2)	------
5 to 10 percent	.5	0.8	(1)	.8	(2)	3.7	0.7	3.7	0.9	(1)	(1)	1.4	3.8	.5	2.7	1.7	0.2	.7	3.3	1.1	(2)
10 to 15 percent	(1)	3.0	0.2	.1	4.4	.9	2.1	.7	1.5	1.6	2.8	2.1	5.8	.6	5.7	2.9	1.2	2.6	5.3	(1)	------
15 to 20 percent	.1	1.1	(1)	5.2	------	2.0	------	1.4	(2)	------	7.7	.3	2.5	.2	3.0	2.7	.8	.7	1.7	------	3.9
20 to 25 percent	(2)	5.2	1.9	3.6	------	3.6	1.1	(2)	------	------	------	6.0	6.1	.4	1.8	2.2	3.2	4.7	------	------	.6
25 to 30 percent	(2)	------	5.2	5.2	------	(2)	.9	.2	------	------	------	2.0	.9	3.4	1.2	1.4	.6	1.7	2.8	------	3.8
30 to 35 percent	(2)	(1)	------	------	------	------	------	1.5	(2)	------	------	2.7	------	------	5.3	1.2	2.4	------	------	------	------
35 to 40 percent	.3	------	------	------	------	------	------	------	(2)	------	------	------	8.5	------	7.1	2.3	------	------	------	------	------
Over 40 percent	------	------	------	------	------	------	------	2.3	(1)	------	(2)	------	(2)	------	4.2	------	------	------	------	------	------
	Federal capital stock tax as percent of net before interest																				
Under 5 percent	1.9	------	6.2	7.3	------	7.5	6.5	2.5	10.6	3.1	5.1	2.4	1.8	2.3	2.3	4.5	------	4.2	3.2	7.2	------
5 to 10 percent	2.1	3.7	1.5	1.6	2.2	1.0	1.5	1.5	1.1	1.5	2.0	1.8	1.7	1.2	1.3	2.5	1.6	1.7	1.6	1.4	2.1
10 to 15 percent	1.2	2.2	1.4	1.4	1.6	1.2	1.7	1.6	.7	1.6	1.2	.9	.9	1.2	1.1	1.4	1.4	1.4	1.8	.9	------
15 to 20 percent	1.7	1.0	1.1	2.3	------	.9	------	.9	.5	------	1.2	1.4	1.3	.8	1.0	1.4	1.1	1.1	1.3	------	1.8

20 to 25 percent	2.5	1.8	1.2	1.2	------	1.2	1.1	.8	------	------	------	1.8	1.0	.9	1.3	1.1	1.1	1.3	------	------	1.4
25 to 30 percent	.5	------	1.1	1.1	------	.8	1.8	1.1	------	------	------	1.3	.8	.4	.9	1.2	.8	1.5	1.0	------	.6
30 to 35 percent	1.1	1.0	------	------	------	------	------	.7	1.1	------	------	1.3	------	------	1.1	1.1	1.4	------	------	------	------
35 to 40 percent	.9	------	------	------	------	------	------	------	.5	------	------	------	1.2	------	.8	1.3	------	------	------	------	------
Over 40 percent	------	------	------	------	------	------	------	1.2	8.6	------	.7	------	.8	------	.8	------	------	------	------	------	------

PART II. BY EQUITY RATIO CLASSES

[For number of cases, see appendix E, table II, Part 3, p. 142]

EQUITY RATIO																					
	Federal income taxes as percentof net before interest																				
Under 2 percent	12.8	14.8	15.2	19.6	------	10.0	11.0	13.8	15.8	17.7	9.5	8.5	13.7	12.4	16.2	10.2	9.4	13.9	11.4	3.2	------
2 to 4 percent	13.2	8.1	11.3	15.2	12.2	13.2	13.7	14.1	9.5	10.3	21.1	13.4	31.1	13.1	15.6	17.0	15.6	15.0	15.2	6.3	13.1
4 to 8 percent	12.9	13.4	13.7	9.7	------	13.5	13.6	11.2	8.5	------	14.8	12.5	18.4	11.0	14.6	15.0	15.5	15.1	15.8	14.4	16.1
8 to 12 percent	15.0	16.5	13.5	14.7	------	15.0	12.8	14.7	2.6	------	12.6	12.6	12.6	11.5	14.8	15.1	9.9	10.0	14.0	16.3	17.5
12 to 16 percent	12.9	14.8	------	11.4	11.4	------	13.6	14.0	11.1	14.8	------	15.4	11.9	16.8	10.5	6.6	10.3	16.0	14.7	14.5	------
16 to 20 percent	11.4	------	12.8	16.0	------	11.6	14.8	10.6	------	15.0	------	9.2	------	8.8	------	13.6	8.6	12.9	17.7	------	------
Over 20 percent	17.5	------	13.9	13.5	------	7.5	12.0	5.6	9.0	------	------	11.8	10.9	10.9	10.3	119.2	14.5	------	------	------	1.9
	Surtax on undistributed profits as percent of net before interest																				
Under 2 percent	0.7	2.1	6.3	0.1	------	2.4	8.6	2.6	0.8	0	0.2	0.8	4.5	0.8	4.3	0.8	0.7	0.2	3.0	0.7	------
2 to 4 percent	.9	.8	1.7	5.1	3.1	3.5	.2	5.7	1.4	.3	10.5	1.7	5.3	1.3	5.6	2.0	2.5	4.7	3.0	------	3.9
4 to 8 percent	.0	.9	------	1.9	------	4.7	3.6	.5	1.8	------	1.9	2.3	3.9	.7	3.2	2.3	.7	2.0	3.4	.4	.6
8 to 12 percent	.3	.2	------	3.6	------	3.6	2.0	.5	0	------	3.4	4.9	1.6	1.9	1.6	2.0	.5	.6	1.9	.8	3.8
12 to 16 percent	.2	------	------	.2	6.5	------	0	2.2	.6	.6	------	3.5	4.0	.4	1.4	0	.5	2.6	1.2	------	------
16 to 20 percent	0	------	------	------	------	.4	3.7	1.3	------	.1	------	1.0	------	0	------	3.2	.1	------	3.3	------	------
Over 20 percent	.5	------	.1	------	------	------	------	------	------	------	------	.5	------	.8	.7	------	.4	------	------	------	------
	Federal capital stock tax as percent of net before interest																				
Under 2 percent	2.7	1.1	1.0	2.0	------	1.2	1.5	1.3	1.4	1.7	1.9	1.4	1.1	1.6	0.8	1.8	1.6	1.6	1.8	0.9	------
2 to 4 percent	1.6	1.1	1.8	1.9	1.4	.9	1.7	1.9	.8	2.2	1.1	1.7	3.3	1.7	1.0	1.3	.9	1.6	1.2	3.5	1.8
4 to 8 percent	2.0	1.2	1.4	1.3	------	1.1	1.2	1.2	1.3	------	1.0	.9	1.5	1.0	1.0	1.2	1.2	1.4	1.6	1.1	1.4
8 to 12 percent	1.7	1.4	1.2	1.3	------	1.2	1.6	1.5	1.1	------	1.4	1.3	1.2	.8	1.1	1.4	1.2	1.1	1.2	1.1	.6
12 to 16 percent	1.3	2.3	------	2.4	3.2	------	2.7	1.4	1.6	1.5	------	1.0	.7	1.5	1.0	.6	1.8	1.4	1.5	1.2	------
16 to 20 percent	1.3	------	1.1	1.4	------	1.6	1.8	.8	------	1.3	------	1.6	------	.8	------	1.5	1.2	1.8	1.5	------	------
Over 20 percent	1.6	------	1.4	1.4	------	7.5	1.2	4.6	.7	------	------	1.1	4.2	1.0	2.0	8.0	1.4	------	------	------	2.1

[1] Less than 0.05 of 1 percent.
[2] No tax.

Source: Department of Commerce Survey of Business Taxation.

TABLE 19.—*Tax payments of manufacturers, retailers, and wholesalers as percentages of sales, by industries and size of firms, 1938*

	Size classes (Sales in thousands of dollars)	Federal taxes on business income		Federal excises	Social security pay-roll taxes on		State taxes on business income		Property taxes		State sales taxes	Business taxes	All other taxes	Total taxes		
		Corporate	Individual		Employer	Employee	Corporate	Individual	Owners	Renters				Total	Corporate	Individual
MANUFACTURERS																
I. Food	Total	0.44	0.49	------	0.68	0.18	0.17	0.04	0.50	0.15	0.06	0.01	0.20	2.07	2.10	2.28
	Under $50	.29	.15	------	.50	.18	.06	.10	.90	.23	.20	.03	.24	2.02	2.20	2.17
	$50 to $200	.35	.32	------	.63	.19	.11	.07	.59	.18	.18	.04	.16	1.82	1.97	1.97
	$200 to $1,000	.35	.30	------	.64	.16	.08	.02	.43	.09	.13	.02	.13	1.70	1.76	1.13
	Over $1,000	.46	.91	------	.68	.18	.18	.03	.50	.16	.04	.01	.21	2.11	2.13	3.83
1. Baking and confectionery.	Total	.56	.99	------	1.09	.29	.15	.03	.58	.14	.12	.01	.08	2.55	2.34	3.72
	Under $50	.15	.11	------	.50	.24	.14	.08	1.22	.20	.24	.00	.20	1.42	1.86	2.16
	$50 to $200	.62	.17	------	1.00	.23	.08	.18	.42	.22	.10	.01	.12	2.02	2.59	1.73
	$200 to $1,000	.31	.63	------	1.04	.25	.10	.00	.45	.06	.11	.02	.16	2.14	2.10	2.22
	Over $1,000	.58	1.35	------	1.11	.30	.16	.00	.59	.17	.12	.00	.07	2.71	2.39	4.28
2. Dairies, creameries and milk dealers.	Total	.35	.42	------	.85	.24	.10	.03	.56	.13	.07	.01	.42	2.40	2.44	1.80
	Under $50	.18	.12	------	.32	.14	.07	.01	.48	.24	.24	.01	.22	1.25	1.59	1.48
	$50 to $200	.21	.40	------	.54	.17	.06	.07	.37	.14	.17	.03	.14	1.52	1.55	2.27
	$200 to $1,000	.29	.30	------	.66	.17	.06	.02	.34	.13	.23	.02	.16	1.66	1.73	1.19
	Over $1,000	.35	.88	------	.88	.25	.11	.00	.58	.10	.05	.00	.46	2.49	2.49	2.21
3. Meat packing	Total	.22	.08	------	.39	.06	.20	.05	.19	.06	.01	.02	.02	.99	.80	.82
	Under $50	.07	------	------	.72	.24	------	------	.19	.40	.00	.00	.14	.75	------	------
	$50 to $200	.18	.05	------	.38	.11	.31	.00	.23	.03	.14	.03	.12	1.15	1.37	.82
	$200 to $1,000	.33	.18	------	.43	.10	.06	.02	.19	.05	.04	.01	.17	1.32	1.72	.84
	Over $1,000	.22	.07	------	.39	.05	.20	.08	.19	------	.00	.02	.01	.97	.75	------
4. Ice manufacturing	Total	.79	.42	------	1.18	.34	.29	.14	2.03	.88	.87	.11	.28	5.39	5.41	3.66
	Under $50	.67	.31	------	1.11	.30	.10	.25	2.20	------	.42	.12	.38	4.50	5.51	4.09
	$50 to $200	.99	.50	------	1.31	.42	.39	.05	2.04	.88	.72	.16	.30	5.31	5.19	3.05
	$200 to $1,000	.58	------	------	1.03	.26	.23	------	2.01	------	1.35	.04	.20	5.90	6.07	------
	Over $1,000	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------
5. Flour and feed milling	Total	.13	.07	------	.37	.11	.02	.00	.41	.05	.06	.01	.14	1.12	.97	.60
	Under $50	.15	------	------	.10	.07	.02	------	.67	.00	.04	.00	.18	3.78	2.29	------
	$50 to $200	.28	.07	------	.32	.09	.07	.00	.44	.39	.13	.01	.22	1.30	1.73	.79
	$200 to $1,000	.21	.07	------	.34	.08	.04	.00	.41	------	.04	.02	.12	1.21	1.32	.57
	Over $1,000	.11	------	------	.38	.12	.01	------	.40	.00	.06	.01	.13	1.06	.85	------
6. Canning and other food manufactures.	Total	.90	.35	3.7	.56	.16	.31	.05	.55	.16	.04	.01	.13	2.59	2.62	1.60
	Under $50	.13	.10	------	.61	.17	.02	.17	.72	.26	.04	.04	.23	1.80	1.73	1.75
	$50 to $200	.33	.33	------	.62	.17	.10	.03	.85	.13	.07	.03	.12	1.74	1.86	1.80
	$200 to $1,000	.55	.38	------	.67	.17	.10	.05	.54	.07	.06	.02	.06	1.69	1.76	1.37
	Over $1,000	.95	------	------	.54	.15	.34	------	.54	.18	.03	.01	.14	2.75	2.75	------
II. Beverages and tobacco	Total	1.06	.38	------	.63	.17	.25	.54	.53	.65	.36	.13	.19	3.49	7.91	3.94
	Under $50	.82	.43	------	.42	.19	.56	.16	.75	.24	.39	.06	.50	3.09	2.81	4.09
	$50 to $200	1.06	.36	------	.57	.15	.28	.17	.55	.17	.58	.04	.30	3.27	4.22	2.47
	$200 to $1,000	1.12	.38	------	.58	.16	.28	.24	.69	.05	1.48	.07	.33	5.05	4.05	5.25
	Over $1,000	1.05	------	------	.65	.17	.24	2.67	.49	1.12	.05	.15	.14	3.17	9.09	------

7. Breweries	Total	1.35		32.7	.66	.12	.10		.88	.40		.08	.33	4.59		
	Under $50															
	$50 to $200	.04			.55	.18	.00		1.32			.00	.39	7.49		
	$200 to $1,000	.56			.87	.20	.11		1.10			.02	.55	8.33		
	Over $1,000	1.52			.63	.11	.10		.83	.40		.10	.29	3.66		
8. Distilleries and wineries.	Total	.36	.02	49.1	.32	.11	.03	.00	.41	1.05	.57	.07	.19	2.95	2.96	12.18
	Under $50	.86			.24	.12			.78		6.26	.00	.17	8.03		
	$50 to $200	.13			1.39	.69	.02		.54	1.05	.31	.06	.93	4.97	4.97	
	$200 to $1,000	1.94	.02		.52	.19	.04	.00	.68		2.76	.05	.45	4.39	5.37	12.18
	Over $1,000	.29			.30	.10	.03		.38		.16	.08	.16	2.57	2.57	
9. Nonalcoholic beverages.	Total	1.75			.62	.17	.37	.18	.67	.11	.73	.11	.30	3.62	3.60	4.37
	Under $50	.82	.47		.39	.17	.56	.17	.76	.25	.24	.07	.55	3.00	2.81	3.89
	$50 to $200	1.27	.46		.49	.12	.32	.13	.55	.13	.61	.05	.29	3.12	3.58	2.47
	$200 to $1,000	1.25	.36		.53	.14	.38	.26	.54	.05	1.31	.09	.27	4.19	3.82	7.90
	Over $1,000	2.72	.67		.92	.26	.43		.92		.08	.23	.34	2.61	2.61	
10. Tobacco	Total	1.29	.06	31.3	.88	.24	.25	.02	.32	1.23	.00	.22	.02	3.10	8.81	.38
	Under $50		.01		.87	.42		.01	.13	.11	.89	.00	.06	1.45		7.72
	$50 to $200	.45			1.11	.23	.16		.29	.08	.14	.00	.03	1.69	26.36	
	$200 to $1,000	.07	.06		.25	.10	.00	.02	.58	.06	.00	.00	.05			.21
	Over $1,000	1.31			.90	.25	.25		.31	1.83	.00	.23	.01	3.11	8.77	
III. Textiles	Total	.56	.14		1.17	.33	.11	.05	.81	.13	.02	.06	.06	2.75	3.23	1.82
	Under $50	.56	.18		1.01	.32	.20	.04	1.14	.20	.32	.03	.14	2.21	2.33	2.37
	$50 to $200	.28	.16		1.08	.30	.11	.06	.67	.17	.09	.02	.06	1.81	2.04	1.77
	$200 to $1,000	.47	.06		1.15	.30	.11	.01	.78	.18	.06	.03	.03	2.77	2.80	2.61
	Over $1,000	.58	.33		1.18	.34	.11	.10	.81	.08	.01	.07	.06	2.77	3.14	1.27
11. Textile weaving	Total	.59			1.19	.34	.12	.03	.95	.12	.02	.08	.07	3.00	3.52	2.72
	Under $50	.26	.37		.90	.30	.10	.05	1.09	.13	.39	.03	.16	2.21	2.05	2.64
	$50 to $200	.35	.11		1.07	.28	.10	.02	.78	.21	.18	.03	.10	2.07	2.16	2.28
	$200 to $1,000	.53	.04		1.14	.31	.13	.02	.86	.24	.04	.05	.02	3.00	3.01	3.48
	Over $1,000	.62	.65		1.19	.34	.12		.96	.07	.01	.08	.08	3.01	3.59	
12. Clothing	Total	.22	.15		1.14	.28	.13	.05	.39	.14	.07	.02	.06	1.91	2.04	1.49
	Under $50	.14	.14		1.17	.31	.06	.06	.48	.27	.22	.03	.12	2.18	3.40	1.99
	$50 to $200	.18	.17		1.06	.32	.13	.07	.57	.16	.03	.01	.03	1.54	1.71	1.61
	$200 to $1,000	.23	.02		1.08	.29	.09	.00	.55	.16	.09	.02	.06	2.14	2.22	1.38
	Over $1,000	.22	.33		1.22	.25	.17	.10	.26	.09	.06	.03	.06	1.83	1.90	1.27
13. Hosiery	Total	.58	.24		1.14	.34	.07	.00	.43	.04	.01	.01	.03	2.23	2.71	1.54
	Under $50	3.39			1.32	.88	3.19		4.79	1.16	.00	.35	.00	3.39		
	$50 to $200	.28	.20		1.26	.37	.14	.00	.54	.00	.00	.00	.02	1.92	2.41	1.54
	$200 to $1,000	.89	.25		1.46	.27	.05		.60	.00	.01	.01	.07	2.95	2.95	
	Over $1,000	.57			1.12	.34	.07		.42		.02	.01	.02	2.18	2.18	
IV. Leather: 14. Leather	Total	.60	.21		1.16	.30	.10	.06	.24	.23	.02	.06	.02	2.29	2.41	1.87
	Under $50	.14	.16		.85	.27	.07	.06	1.16	.41	.26	.01	.13	2.53	2.66	3.45
	$50 to $200	.41	.29		1.13	.33	.05	.12	.86	.22	.04	.01	.03	1.74	2.02	1.47
	$200 to $1,000	.69	.18		1.01	.32	.18	.00	.48	.26	.06	.02	.02	2.31	2.43	1.78
	Over $1,000	.60			1.19	.31	.09		.20	.21	.01	.07	.02	2.30	2.41	
V. Forest products	Total	.81	.46		1.21	.30	.06	.16	1.12	.34	.30	.04	.04	3.74	4.23	2.76
	Under $50	.35	.19		.97	.35	.13	.19	1.33	.49	.20	.01	.29	2.71	2.92	2.90
	$50 to $200	.55	.44		1.31	.34	.10	.14	.87	.42	.27	.03	.13	3.02	3.40	2.50
	$200 to $1,000	.77	.58		1.27	.32	.09	.18	.97	.27	.16	.04	.10	3.36	4.08	3.07
	Over $1,000	.98			1.16	.28	.04		1.26		.41	.05	.01	4.23	4.47	

TABLE 19.—*Tax payments of manufacturers, retailers, wholesalers as percentages of sales, by industries and size of firms, 1938*—Continued

	Size classes (Sales in thousands of dollars)	Federal taxes on business income		Federal excises	Social security pay-roll taxes on		State taxes on business income		Property taxes		State sales taxes	Business taxes	All other taxes	Total taxes		
		Corporate	Individual		Employer	Employee	Corporate	Individual	Owners	Renters				Total	Corporate	Individual
MANUFACTURERS—con.																
V. Forest products—Con. 15. Lumber	Total	0.86	0.60	—	1.12	0.28	0.18	0.10	1.30	0.35	0.35	0.04	0.09	3.97	4.04	3.24
	Under $50	.27	.30	—	1.00	.35	.44	.06	1.31	.09	.17	.01	.47	3.14	2.91	3.37
	$50 to $200	.65	.55	—	1.24	.33	.18	.11	.86	.31	.33	.04	.12	3.32	3.77	2.92
	$200 to $1,000	.78	.68	—	1.18	.28	.16	.11	1.02	.39	.21	.06	.15	3.47	3.46	3.65
	Over $1,000	.93	—	—	1.07	.27	—	.10	1.53	—	.44	.03	.05	4.43	4.41	—
16. Furniture	Total	.95	.54	—	1.40	.34	.07	.17	.84	.21	.25	.07	.04	3.62	4.14	2.47
	Under $50	1.04	.09	—	.82	.36	.34	.10	1.76	.48	.43	.01	.10	2.49	3.49	2.90
	$50 to $200	.41	.78	—	1.48	.43	.10	.14	1.02	.17	.32	.04	.20	2.78	2.92	2.26
	$200 to $1,000	.79	.41	—	1.47	.38	.07	.21	.97	.18	.07	.02	.04	3.18	3.25	2.52
	Over $1,000	1.09	—	—	1.36	.30	.06	—	.74	—	.34	.10	.02	3.94	4.55	—
17. Other	Total	.65	.81	—	1.25	.31	.12	.07	.87	.42	.16	.03	.09	3.05	3.21	2.10
	Under $50	.24	.17	—	1.01	.33	.14	.09	1.21	.68	.11	.01	.18	2.45	2.81	2.46
	$50 to $200	.47	.97	—	1.31	.29	.07	.07	.82	.77	.12	.02	.08	2.60	2.88	1.98
	$200 to $1,000	.73	—	—	1.25	.32	.14	—	.86	.05	.18	.03	.07	3.32	3.32	—
	Over $1,000	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
VI. Paper: 18. Paper	Total	1.56	.41	—	1.01	.27	.26	.07	.82	.45	.08	.11	.02	4.02	4.03	2.08
	Under $50	.56	.29	—	1.14	.28	.13	.06	1.43	.13	.05	.01	.01	2.45	3.24	1.47
	$50 to $200	.40	.44	—	1.26	.33	.11	.07	1.02	.31	.09	.03	.06	2.71	2.90	2.18
	$200 to $1,000	.81	—	—	1.10	.27	.16	—	.81	.59	.03	.05	.05	3.03	3.06	—
	Over $1,000	1.63	—	—	1.00	.27	.27	—	.82	—	.09	.11	.01	4.10	4.10	—
VII. Printing and publishing.	Total	1.14	.70	—	1.51	.35	.16	.15	.96	.27	.12	.06	.06	3.79	3.94	3.22
	Under $50	.34	.31	—	1.18	.37	.09	.22	1.34	.43	.33	.02	.09	2.67	3.26	2.41
	$50 to $200	.72	.65	—	1.78	.43	.16	.09	1.19	.31	.23	.04	.06	3.64	3.76	3.28
	$200 to $1,000	1.43	5.69	—	1.59	.39	.17	.00	.80	.16	.13	.07	.06	4.21	4.22	9.88
	Over $1,000	1.13	—	—	1.43	.29	.16	—	.97	.13	.04	.08	.04	3.81	3.81	—
19. Printing	Total	.93	.80	—	1.45	.35	.18	.15	.72	.27	.21	.06	.05	3.48	3.63	3.25
	Under $50	.33	.33	—	1.14	.35	.08	.26	1.35	.38	.41	.02	.09	2.64	3.40	2.25
	$50 to $200	.50	.69	—	1.72	.43	.13	.06	1.26	.30	.30	.03	.07	3.42	3.52	3.20
	$200 to $1,000	.90	5.69	—	1.59	.33	.14	.00	.72	.13	.19	.07	.05	3.50	3.47	9.88
	Over $1,000	1.22	—	—	1.27	.31	.25	—	.47	.28	.11	.08	.03	3.91	3.91	—
20. Newspapers, periodicals.	Total	1.34	.36	—	1.57	.35	1.15	.15	1.12	.34	.03	.07	.06	4.24	4.36	3.09
	Under $50	.37	.28	—	1.28	.42	.09	.10	1.32	.60	.11	.02	.10	2.73	2.93	2.79
	$50 to $200	1.01	.47	—	1.93	.44	.23	.21	1.08	.36	.05	.05	.05	4.22	4.28	3.69
	$200 to $1,000	2.06	—	—	1.60	.47	.20	—	.88	.21	.06	.08	.08	4.93	4.93	—
	Over $1,000	1.08	—	—	1.53	.28	.09	—	1.19	.00	.00	.08	.05	3.66	3.66	—

VIII. Chemicals	Total	1.03	1.11	--------	.58	.16	.11	.20	.67	.26	.15	.06	.11	2.39	4.00	2.21
	Under $50	.60	.23	--------	.81	.25	.06	.27	1.15	.17	.13	.11	.18	2.37	2.71	3.48
	$50 to $200	.68	.57	--------	.92	.21	.12	.18	.59	.28	.30	.03	.16	2.78	3.30	2.29
	$200 to $1,000	1.02	1.82	--------	.84	.19	.12	.26	.53	.28	.33	.05	.12	3.37	3.85	1.53
	Over $1,000	1.04	--------	--------	.55	.16	.10	.19	.69	--------	.13	.06	.11	2.31	4.03	--------
21. Industrial chemicals	Total	1.20	.64	--------	.60	.17	.16	.07	.79	.11	.21	.06	.16	3.15	3.16	1.81
	Under $50	.58	.26	--------	.67	.25	.04	.21	1.29	.13	.12	.09	.24	2.25	2.29	1.10
	$50 to $200	.84	.65	--------	.90	.21	.13	.11	.55	.23	.28	.03	.16	2.74	2.81	2.02
	$200 to $1,000	1.16	.67	--------	.71	.17	.07	.00	.40	.05	.20	.04	.12	2.60	2.64	1.53
	Over $1,000	1.21	--------	--------	.59	.17	.16	--------	.83	--------	.21	.06	.16	3.22	3.22	--------
22. Drugs	Total	.32	2.95	3.02	.48	.15	.03	.98	.60	.26	.07	.06	.04	1.67	4.86	3.97
	Under $50	.68	.39	--------	.89	.25	.11	.52	1.26	.23	.15	.08	.12	2.50	3.02	5.24
	$50 to $200	.74	.25	--------	1.00	.24	.18	.00	.57	.13	.32	.02	.26	2.92	5.78	2.76
	$200 to $1,000	1.16	4.52	--------	1.13	.21	.36	1.44	.67	.26	.95	.11	.13	5.84	7.86	--------
	Over $1,000	.29	--------	--------	.45	.14	.02	--------	.60	--------	.03	.06	.03	1.54	4.77	--------
23. Paints	Total	.80	.10	--------	.92	.20	.05	.03	.73	.55	.23	.05	.11	2.88	2.88	3.06
	Under $50	.53	.00	--------	1.03	.23	.02	.00	.40	.17	.12	.19	.13	2.26	2.53	1.64
	$50 to $200	.53	.19	--------	.88	.20	.08	.06	.68	.59	.31	.03	.08	2.78	2.66	4.05
	$200 to $1,000	.64	--------	--------	.88	.23	.07	--------	.77	.67	.11	.01	.10	2.97	2.97	--------
	Over $1,000	.89	--------	--------	.93	.19	.04	--------	.73	--------	.26	.06	.11	2.87	2.87	--------
IX. Petroleum: 24. Petroleum.	Total	1.12	.53	7.91	.71	.12	.25	.00	1.30	1.20	14.23	.09	.88	18.98	23.95	15.39
	Under $50	1.96	.17	--------	.37	.31	.00	.00	1.35	1.21	1.89	.02	.05	5.05	--------	10.55
	$50 to $200	1.80	.56	--------	.07	.19	.15	.00	.89	--------	5.82	.02	.03	10.24	16.51	16.09
	$200 to $1,000	.89	--------	--------	.72	.17	.01	--------	.97	.22	.01	.04	.04	1.09	11.23	--------
	Over $1,000	1.12	--------	--------	.71	.12	.25	--------	1.30	1.23	14.28	.09	.88	19.00	23.96	--------
X. Stone, clay and glass	Total	1.80	.37	--------	1.20	.33	.16	.12	.65	.24	.16	.06	.08	4.16	4.35	2.89
	Under $50	.42	.35	--------	1.08	.36	.10	.18	.93	.12	.35	.03	.23	2.75	3.68	2.61
	$50 to $200	.82	.31	--------	1.42	.37	.09	.09	.74	.28	.46	.03	.10	3.54	3.88	2.68
	$200 to $1,000	1.46	.54	--------	1.33	.38	.38	.18	.92	.30	.22	.05	.14	4.49	4.63	3.34
	Over $1,000	1.88	--------	--------	1.17	.32	.14	--------	.60	.18	.13	.06	.07	4.20	4.35	--------
25. Stone	Total	1.89	.39	--------	1.14	.31	.12	.13	.64	.29	.19	.04	.09	4.19	4.45	3.07
	Under $50	.44	.29	--------	.98	.31	.11	.06	.76	.17	.34	.02	.28	2.34	3.08	2.28
	$50 to $200	.67	.37	--------	1.33	.32	.12	.12	.67	.31	.54	.04	.11	3.40	3.59	3.00
	$200 to $1,000	1.86	.51	--------	1.18	.32	.54	.18	.86	.30	.27	.06	.18	4.35	4.56	3.34
	Over $1,000	1.94	--------	--------	1.12	.31	.10	--------	.62	--------	.16	.04	.08	4.25	4.54	--------
26. Clay and glass	Total	1.52	.33	--------	1.37	.38	.16	.11	.66	.16	.08	.10	.06	4.10	4.24	2.38
	Under $50	.37	.47	--------	1.28	.45	.08	.38	1.45	.08	.37	.06	.12	3.53	4.28	2.99
	$50 to $200	1.14	.12	--------	1.63	.47	.03	.01	.91	.17	.29	.03	.08	3.84	4.49	2.12
	$200 to $1,000	.87	.59	--------	1.59	.50	.15	--------	.99	--------	.14	.03	.07	4.72	4.72	--------
	Over $1,000	1.68	--------	--------	1.30	.34	.16	--------	.56	.18	.03	.12	.05	4.06	4.17	--------
XI. Metals	Total	1.22	.61	--------	1.00	.25	.15	.15	.80	.49	.11	.09	.04	3.91	5.03	2.77
	Under $50	.54	.62	--------	1.13	.37	.11	.18	1.22	.31	.15	.02	.18	2.59	3.13	2.27
	$50 to $200	.66	.62	--------	1.50	.39	.13	.26	1.01	.33	.12	.03	.11	3.57	3.60	3.26
	$200 to $1,000	1.22	.59	--------	1.01	.34	.13	.04	.75	.44	.12	.03	.06	4.16	4.26	2.07
	Over $1,000	1.24	--------	--------	.98	.23	.15	--------	.80	.70	.10	.10	.03	3.89	5.22	--------
27. Iron and steel	Total	1.34	.59	--------	1.17	.27	.14	.09	1.04	.37	.08	.14	.05	4.82	5.24	2.70
	Under $50	.67	.93	--------	.99	.32	.07	.17	1.27	.43	.30	.02	.18	2.80	3.06	2.53
	$50 to $200	.61	.60	--------	1.49	.35	.10	.10	1.00	.25	.40	.03	.14	3.20	3.22	3.23
	$200 to $1,000	1.25	.46	--------	1.27	.30	.10	.06	.67	.37	.10	.02	.07	4.03	4.16	.96
	Over $1,000	1.37	--------	--------	1.15	.26	.14	--------	1.10	.42	.07	.15	.04	4.84	5.40	--------

TABLE 19.—*Tax payments of manufacturers, retailers, wholesalers as percentages of sales, by industries and size of firms, 1938*—Continued

	Size classes (Sales in thousands of dollars)	Federal taxes on business income		Federal excises	Social security pay-roll taxes on		State taxes on business income		Property taxes		State sales taxes	Business taxes	All other taxes	Total taxes		
		Corporate	Individual		Employer	Employee	Corporate	Individual	Owners	Renters				Total	Corporate	Individual
MANUFACTURERS—con.																
XI. Metals—Continued.																
28. Foundries	Total	1.02	0.50	----	1.66	0.48	0.11	0.49	1.15	0.58	0.11	0.09	0.13	4.92	5.44	4.97
	Under $50	.31	.25	----	1.65	.50	.13	.13	1.11	.30	.34	.02	.19	3.21	3.93	3.07
	$50 to $200	.47	.87	----	1.79	.47	.05	.84	1.06	.99	.17	.02	.07	4.40	4.07	7.20
	$200 to $1,000	1.03	.07	----	1.52	.42	.15	.0	.82	.41	.17	.02	.05	4.45	4.52	1.05
	Over $1,000	1.24	----	----	1.81	.56	.08	----	1.61	----	.0	.20	.27	5.70	8.13	----
29. Hardware	Total	1.50	.59	----	1.37	.34	.22	.06	.99	.36	.04	.03	.02	4.01	5.78	2.65
	Under $50	.50	.65	----	1.00	.34	.07	.26	1.35	.24	.14	.01	.21	2.27	2.79	2.14
	$50 to $200	.92	.26	----	1.43	.38	.19	.04	.95	.27	.05	.02	.09	3.46	3.81	2.20
	$200 to $1,000	1.42	.95	----	1.36	.35	.17	.0	.84	.38	.10	.05	.03	4.38	4.41	3.59
	Over $1,000	1.56	----	----	1.37	.33	.23	----	1.03	.49	.02	.03	.0	3.98	6.30	----
30. Nonferrous metals	Total	.89	.73	----	.59	.15	.14	.17	.41	.68	.01	.02	.02	2.36	3.13	2.20
	Under $50	.55	.21	----	1.14	.43	.22	.03	1.01	.19	.11	.01	.11	2.00	2.75	1.33
	$50 to $200	.71	1.05	----	1.34	.39	.21	.26	1.06	.35	.09	.04	.08	3.79	3.68	2.90
	$200 to $1,000	1.05	.29	----	1.37	.33	.10	.07	.68	.63	.05	.04	.11	3.69	3.85	1.46
	Over $1,000	.89	----	----	.53	.13	.14	----	.39	.80	.01	.02	.02	2.28	2.99	----
XII. Machinery	Total	1.92	.69	----	1.36	.29	.17	.18	.91	.32	.06	.06	.08	4.66	5.78	3.39
	Under $50	.54	.44	----	1.28	.42	.09	.09	1.09	.40	.21	.02	.18	2.78	3.18	3.34
	$50 to $200	.69	.60	----	1.48	.44	.17	.23	.95	.31	.21	.04	.09	3.44	3.56	3.17
	$200 to $1,000	1.24	.93	----	1.30	.34	.15	.16	.72	.31	.10	.05	.06	3.91	3.95	3.13
	Over $1,000	1.98	----	----	1.36	.29	.17	----	.92	.31	.06	.06	.08	4.74	6.11	----
31. Electrical	Total	1.87	.64	.59	1.58	.37	.22	.08	.87	.36	.08	.05	.06	5.04	5.60	3.68
	Under $50	.84	.21	----	1.43	.49	.21	.11	.75	.46	.19	.02	.09	2.90	3.09	3.61
	$50 to $200	.75	.38	----	1.40	.38	.21	.08	.89	.34	.11	.02	.04	2.95	3.04	2.61
	$200 to $1,000	1.62	1.31	----	1.10	.30	.15	.08	.60	.38	.13	.03	.05	3.68	3.65	4.01
	Over $1,000	1.92	----	----	1.60	.37	.23	----	.88	.30	.08	.05	.06	5.36	5.83	----
32. Machine shops	Total	1.52	.68	----	1.59	.42	.15	.18	.52	.32	.09	.14	.14	3.89	4.01	3.54
	Under $50	.43	.59	----	1.17	.39	.09	.06	1.16	.38	.25	.01	.25	3.00	3.02	4.10
	$50 to $200	.83	.73	----	1.84	.57	.22	.17	.74	.29	.15	.02	.05	3.85	2.96	3.11
	$200 to $1,000	1.84	.68	----	1.48	.41	.17	.27	.64	.32	.12	.06	.07	4.44	4.51	3.70
	Over $1,000	1.69	----	----	1.64	.36	.12	----	.42	----	.0	.32	.20	1.83	1.83	----
33. Automobiles	Total	.52	----	1.78	1.10	.25	.03	----	1.47	----	.08	.09	.02	3.79	5.87	----
	Under $50	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----
	$50 to $200	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----
	$200 to $1,000	.54	----	----	1.45	.33	----	----	.24	----	.03	.09	.54	----	----	----
	Over $1,000	.52	----	----	1.09	.24	.03	----	1.48	----	.08	.09	.02	3.79	5.87	----

34. Other transportation and agriculture.	Total	2.37	1.09	.82	1.23	.38	.15	.28	.84	.32	.02	.03	.11	4.67	6.51	1.90
	Under $50	1.13	.13		1.60	.44	.03	.21	1.09	.40	.07	.03	.15	2.19	4.75	1.22
	$50 to $200	.52	.53		1.18	.35	.14	.26	.76	.18	.11	.03	.06	2.66	2.99	2.51
	$200 to $1,000	.95	1.40		1.27	.35	.13	.35	.75	.35	.03	.04	.04	3.29	3.49	
	Over $1,000	2.41			1.23	.38	.15		.84	.39	.02	.03	.11	4.72	6.60	
35. Engines	Total	1.91	.52		1.49	.40	.25	.14	.88	.26	.11	.12	.04	5.02	5.12	3.28
	Under $50	.27	.37		1.15	.39	.03	.05	1.18	.35	.23	.03	.15	2.64	2.58	2.62
	$50 to $200	.64	.58		1.42	.44	.13	.18	1.15	.37	.32	.05	.11	3.75	3.86	3.34
	$200 to $1,000	1.10	.38		1.35	.32	.15	.06	.80	.22	.12	.06	.06	4.17	4.14	3.32
	Over $1,000	2.05			1.51	.40	.27		.88	.23	.10	.13	.03	5.18	5.27	
XIII. Miscellaneous manufacturing.	Total	1.53	.50	.85	1.16	.29	.20	.16	.88	.22	.08	.05	.04	4.63		
	Under $50	.42	.38		.99	.32	.15	.17	.89	.27	.21	.02	.16	2.48		
	$50 to $200	.80	.64		1.20	.34	.14	.13	.83	.18	.17	.03	.09	2.72		
	$200 to $1,000	.95	.21		1.29	.32	.22	.24	.62	.23	.15	.04	.04	3.33		
	Over $1,000	1.61			1.15	.29	.20		.90		.04	.06	.04	5.14		
RETAILERS																
I. Food	Total	.15	.11		.31	.10	.09	.04	.44	.14	.63		.14	1.43	1.54	1.56
	Under $20	.09	.02		.09	.06	.07	.01	.86	.16	.84		.25	1.63	2.18	1.65
	$20 to $50	.13	.07		.15	.08	.06	.02	.56	.10	.58		.17	1.30	1.32	1.34
	$50 to $300	.16	.17		.34	.11	.07	.06	.39	.14	.59		.14	1.48	1.80	1.59
	Over $300	.16	.17		.55	.10	.11	.05	.26	.22	.65		.04	1.33	1.16	1.68
1. Groceries	Total	.13	.12		.19	.06	.04	.06	.63	.15	.45		.12	1.21	1.11	1.40
	Under $20	.10	.01		.05	.03	.03	.01	1.01	.20	.69		.28	1.51	3.57	3.05
	$20 to $50	.28	.16		.07	.04	.12	.02	.48	.11	.43		.13	1.25	.77	1.61
	$50 to $300	.24	.14		.21	.07	.07	.08	.53	.10	.41		.09	1.13	1.13	1.26
	Over $300	.03	.21		.40	.09	.03	.13	.17	.32	.18		.04	.91	.91	
2. Groceries and meats	Total	.14	.10		.27	.08	.08	.02	.36	.15	.74		.11	1.41	1.48	1.58
	Under $20	.09	.02		.05	.04	.06	.01	.58	.16	.96		.22	1.70	1.99	1.30
	$20 to $50	.08	.03		.10	.06	.02	.00	.44	.10	.72		.15	1.26	1.23	1.10
	$50 to $300	.13	.16		.26	.09	.08	.05	.33	.13	.69		.10	1.43	1.66	1.68
	Over $300	.19	.14		.55	.12	.09	.02	.30	.25	.78		.03	1.44	1.28	1.77
3. Meats and fish	Total	.21	.06		.21	.08	.28	.01	.59	.09	.50		.13	1.12	.64	1.34
	Under $20	.14	.01		.05	.04	.17	.01	.93	.11	.74		.16	1.22	1.54	.52
	$20 to $50	.06	.02		.14	.07	.35	.02	.92	.07	.27		.10	.86	.76	.68
	$50 to $300	.00	.09		.20	.09	.01	.02	.47	.09	.50		.18	1.00	.47	1.24
	Over $300	.51	.12		.57	.12	.43	.00	.45	.19	.77		.01	2.43		2.43
4. Bakeries	Total	.22	.25		.93	.31	.05	.11	.66	.12	.31		.19	1.97	2.05	2.27
	Under $20	.10	.04		.38	.21	.07	.03	1.22	.10	.33		.23	1.48	1.67	1.79
	$20 to $50	.19	.13		.63	.24	.13	.06	.83	.08	.27		.18	1.42	1.47	1.43
	$50 to $300	.24	.46		1.16	.37	.03	.18	.50	.16	.33		.19	2.53	2.18	2.86
	Over $300				1.66	.34	.07									
5. Other food and beverages.	Total	.18	.20		.42	.14	.07	.06	.67	.14	.54		.33	1.80	2.21	1.48
	Under $20	.06	.05		.12	.06	.07	.01	1.55	.14	1.19		.34	2.10	1.60	2.46
	$20 to $50	.10	.17		.26	.13	.02	.12	1.12	.09	.56		.44	1.95	2.83	2.04
	$50 to $300	.23	.25		.51	.17	.06	.05	.37	.29	.48		.33	1.92	2.79	1.37
	Over $300	.13			.55	.13	.09		.48	.02	.04		.14	1.11	1.29	.87
II. Farmers' supplies	Total	.30	.12		.21	.06	.05	.06	.46	.24	.49		.13	1.61	1.66	1.64
	Under $20	.20	.02		.10	.03	.04	.01	.88	.32	.67		.29	1.72	1.49	2.09
	$20 to $50	.26	.05		.12	.06	.11	.04	.67	.33	.67		.17	1.77	2.58	2.09
	$50 to $300	.25	.17		.22	.07	.04	.09	.43	.23	.43		.11	1.37	1.49	1.60
	Over $300	.38	.29		.25	.07	.06	.10	.31	.19	.45		.09	1.99	1.78	1.42

TABLE 19.—*Tax payments of manufacturers, retailers, wholesalers as percentages of sales, by industries and size of firms, 1938*—Continued

	Size classes (Sales in thousands of dollars)	Federal taxes on business income		Federal excises	Social security pay-roll taxes on		State taxes on business income		Property taxes		State sales taxes	Business taxes	All other taxes	Total taxes		
		Corporate	Individual		Employer	Employee	Corporate	Individual	Owners	Renters				Total	Corporate	Individual
RETAILERS—continued																
11. Farmers' supplies—Con. 6. General stores	Total	.45	.08	----	.26	.07	.09	.04	.68	.28	.72	----	.17	2.01	2.06	2.15
	Under $20	.23	.02	----	.05	.02	.01	.02	.65	.35	.73	----	.30	1.64	1.46	2.15
	$20 to $50	.25	.06	----	.10	.05	.09	.04	.66	.33	.76	----	.17	1.77	2.29	2.08
	$50 to $300	.31	.23	----	.36	.09	.08	.12	.69	.31	.65	----	.11	1.87	2.01	2.41
	Over $300	.87	.04	----	.56	.12	.11	.01	.71	.04	.81	----	.21	2.93	2.15	1.22
7. Farmers' supply stores	Total	.22	.12	----	.16	.05	.04	.05	.33	.21	.26	----	.10	1.14	1.31	.97
	Under $20	.15	.02	----	.09	.06	.14	.00	1.43	.16	.36	----	.23	1.54	1.06	1.63
	$20 to $50	.31	.02	----	.17	.10	.18	.00	.73	.25	.34	----	.15	1.85	3.38	2.06
	$50 to $300	.21	.13	----	.15	.05	.03	.05	.32	.14	.26	----	.11	1.01	1.12	1.05
	Over $300	.23	.21	----	.17	.05	.04	.13	.24	.25	.24	----	.07	1.26	1.45	.59
8. Farm implements	Total	.48	.24	----	.32	.10	.09	.13	.57	.20	.93	----	.14	2.33	2.61	2.45
	Under $20	.09	.03	----	.73	.06	.20	.00	1.33	.32	.64	----	.22	3.01	2.54	6.84
	$20 to $50	.14	.12	----	.13	.05	.02	.10	.60	.50	.69	----	.18	1.66	2.47	2.18
	$50 to $300	.35	.19	----	.27	.09	.03	.13	.53	.21	.86	----	.17	2.01	2.16	2.11
	Over $300	.67	.48	----	.44	.16	.16	.08	.37	.12	1.24	----	.06	3.15	3.06	3.39
III. General merchandise	Total	.48	.23	----	.58	.16	.11	.07	1.23	.61	.89	----	.09	2.85	3.26	2.62
	Under $20	.62	.20	----	.54	.15	.21	.05	.91	.58	1.12	----	.09	2.88	3.02	3.25
	$20 to $50	.50	.18	----	.54	.19	.12	.15	1.83	.66	.67	----	.08	2.89	3.28	1.89
	$50 to $300	.41	.20	----	.61	.15	.06	.05	1.27	.60	.86	----	.09	2.79	3.48	2.65
	Over $300	.55	1.58	----	.60	.14	.11	.00	.61	.65	.91	----	.09	2.83	2.83	----
9. Department stores	Total	.50	.36	----	.66	.17	.11	.09	1.38	.78	.89	----	.05	3.12	3.43	3.54
	Under $20	.63	.36	----	.62	.17	.21	.09	.82	.63	1.17	----	.06	3.09	3.04	3.54
	$20 to $50	.55	----	----	.67	.23	.12	----	2.06	.90	.55	----	.04	3.45	3.45	----
	$50 to $300	.43	----	----	.67	.17	.06	----	1.39	.90	.84	----	.05	2.89	3.86	----
	Over $300	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----
10. General merchandise and dry goods.	Total	.41	.17	----	.46	.13	.09	.05	.94	.44	.86	----	.16	2.55	2.66	2.45
	Under $20	.09	.07	----	.09	.04	.16	.00	1.92	.38	.90	----	.31	2.08	2.95	1.38
	$20 to $50	.26	.17	----	.37	.14	.11	.08	1.16	.43	.80	----	.13	2.12	1.68	2.01
	$50 to $300	.37	.20	----	.49	.14	.05	.06	.91	.35	.91	----	.18	2.71	2.74	2.64
	Over $300	.54	----	----	.58	.14	.12	----	.61	.73	.78	----	.10	2.83	2.83	----
11. Variety stores	Total	.43	.28	----	.30	.11	.04	.08	1.12	.31	.99	----	.12	1.81	1.77	2.06
	Under $20	.16	.05	----	.08	.06	.14	.02	1.14	.34	.88	----	.17	1.67	1.23	2.23
	$20 to $50	.16	.19	----	.19	.10	.18	.24	1.33	.26	.87	----	.18	1.80	3.10	1.59
	$50 to $300	.18	.21	----	.44	.16	.03	.00	.36	.34	.82	----	.02	2.26	.33	2.72
	Over $300	.66	1.58	----	.73	.18	.00	.00	----	.34	1.64	----	.00	----	----	----

IV. Apparel	Total	.42	.30	--------	.50	.16	.13	.09	1.03	.36	.84	--------	.11	2.33	2.73	2.18
	Under $20	.20	.06	--------	.12	.07	.16	.02	1.79	.36	.97	--------	.21	2.10	1.90	2.15
	$20 to $50	.26	.19	--------	.21	.10	.07	.09	1.03	.30	.93	--------	.13	1.95	2.14	2.01
	$50 to $400	.37	.29	--------	.54	.15	.10	.12	1.02	.29	.96	--------	.13	2.49	2.85	2.44
	Over $300	.50	.98	--------	.82	.23	.15	.05	.95	.50	.47	--------	.03	2.61	2.88	1.65
12. Men's and boys'	Total	.36	.33	--------	.64	.17	.09	.06	.75	.36	.96	--------	.12	2.50	2.91	2.16
	Under $20	.23	.02	--------	.17	.07	.21	.01	2.05	.50	1.04	--------	.20	2.40	2.44	2.16
	$20 to $50	.24	.19	--------	.20	.09	.07	.09	1.32	.30	.96	--------	.13	2.00	1.92	2.22
	$50 to $300	.37	.23	--------	.55	.15	.09	.05	.85	.37	.96	--------	.16	2.62	3.05	2.26
	Over $300	.38	1.25	--------	1.09	.27	.08	.10	.52	.33	.95	--------	.04	2.69	3.02	1.82
13. Women's wear	Total	.45	.31	--------	.46	.15	.09	.06	1.39	.26	.77	--------	.09	2.20	2.58	2.31
	Under $20	.21	.09	--------	.12	.07	.07	.03	1.57	.22	.95	--------	.19	1.75	1.37	2.24
	$20 to $50	.21	.20	--------	.23	.10	.05	.08	.84	.23	1.04	--------	.11	1.90	1.70	2.14
	$50 to $30	.33	.33	--------	.54	.18	.09	.08	.97	.12	.14	--------	.08	2.33	2.69	2.45
	Over $300	.54	.80	--------	.70	.17	.09	.00	1.61	.50	.17	--------	.05	2.65	2.85	--------
14. Family clothing	Total	.53	.27	--------	.51	.19	.23	.20	1.09	.45	.70	--------	.09	2.33	2.47	2.54
	Under $20	.20	.05	--------	.09	.06	.46	.01	1.51	.22	1.06	--------	.28	2.09	1.13	2.25
	$20 to $50	.20	.18	--------	.14	.07	.09	.08	.82	.32	.85	--------	.19	1.81	1.71	2.00
	$50 to $300	.34	.39	--------	.52	.13	.10	.32	1.22	.19	.80	--------	.14	2.64	2.55	2.93
	Over $300	.62	--------	--------	.67	.27	.27	--------	1.01	.58	.29	--------	.01	2.64	2.64	--------
15. Shoes	Total	.42	.22	--------	.36	.13	.10	.12	1.48	.42	.74	--------	.13	2.02	2.57	1.75
	Under $20	.15	.05	--------	.09	.06	.10	.02	1.76	.52	.87	--------	.23	2.24	2.16	1.92
	$20 to $50	.37	.17	--------	.26	.12	.07	.10	.89	.41	.80	--------	.13	2.08	2.99	1.42
	$50 to $300	.47	.29	--------	.50	.16	.12	.22	1.83	.40	.72	--------	.10	2.00	2.17	2.17
	Over $300	--------	.50	--------	.53	.11	--------	.00	--------	--------	.00	--------	.05	1.09	--------	1.09
V. Furniture	Total	.58	.37	--------	.56	.17	.14	.16	1.10	.35	.87	--------	.18	2.80	2.96	2.52
	Under $20	.14	.08	--------	.18	.09	.10	.17	1.78	.26	.85	--------	.30	2.09	2.64	1.98
	$20 to $50	.33	.19	--------	.29	.15	.10	.10	1.25	.26	.86	--------	.20	2.04	2.36	2.03
	$50 to $300	.58	.41	--------	.62	.17	.14	.16	1.00	.26	.85	--------	.16	2.72	2.86	2.67
	Over $300	.65	.86	--------	.77	.19	.29	.19	1.13	.77	.95	--------	.14	4.14	3.55	3.16
16. Furniture	Total	.64	.48	--------	.56	.15	.09	.17	1.19	.44	.89	--------	.19	2.99	2.99	2.76
	Under $20	.18	.83	--------	.15	.08	.20	.21	2.20	.40	.82	--------	.36	2.40	3.01	2.46
	$20 to $50	.41	.23	--------	.24	.11	.11	.08	1.33	.33	.80	--------	.21	2.13	2.61	2.08
	$50 to $300	.64	.46	--------	.56	.15	.06	.16	1.15	.29	.91	--------	.18	2.85	2.99	2.87
	Over $300	.70	.86	--------	.76	.19	.12	.29	1.11	.83	.91	--------	.16	4.03	3.13	3.16
17. House furnishings and floor coverings.	Total	.33	.44	--------	.69	.22	.09	.22	1.11	.28	1.11	--------	.12	3.28	3.77	2.89
	Under $20	.16	.15	--------	.36	.08	.46	.00	1.94	.13	.44	--------	.27	1.79	2.06	.31
	$20 to $50	.30	.22	--------	.33	.15	.08	.24	1.72	.30	.67	--------	.17	2.07	2.44	2.50
	$50 to $300	.34	.64	--------	.78	.26	.08	.27	.63	.21	1.16	--------	.11	3.25	3.14	3.52
	Over $300	.34	--------	--------	.92	.21	.11	--------	1.74	.78	2.10	--------	.06	5.44	5.57	--------
18. Radio and household appliances.	Total	.45	.16	--------	.18	.06	.05	.05	.56	.16	.72	--------	.17	1.94	2.07	1.80
	Under $20	.06	.07	--------	.24	.06	.08	.02	.83	.17	.99	--------	.24	1.78	1.83	1.66
	$20 to $50	.09	.14	--------	.14	.09	.03	.09	.90	.17	1.03	--------	.17	1.91	1.57	1.86
	$50 to $300	.49	.19	--------	.19	.04	.06	.04	.40	.15	.51	--------	.17	1.89	1.98	1.77
	Over $300	.57	--------	--------	--------	--------	.00	--------	.41	.20	.58	--------	.07	3.47	3.47	--------
VI. Lumber and hardware	Total	.58	.42	--------	.50	.14	.11	.11	.86	.34	.73	--------	.14	2.83	3.06	2.49
	Under $20	.20	.04	--------	.15	.08	.14	.03	1.71	.40	.99	--------	.26	2.47	3.09	2.58
	$20 to $50	.40	.20	--------	.27	.12	.08	.11	1.13	.43	.85	--------	.19	2.39	2.72	2.27
	$50 to $300	.53	.40	--------	.52	.15	.11	.10	.84	.34	.74	--------	.15	2.77	2.99	2.56
	Over $300	.66	.88	--------	.57	.15	.12	.18	.78	.19	.65	--------	.10	3.10	3.19	2.50

TABLE 19.—*Tax payments of manufacturers, retailers, wholesalers as percentages of sales, by industries and size of firms, 1938*—Continued

	Size classes (Sales in thousands of dollars)	Federal taxes on business income		Federal excises	Social security pay-roll taxes on		State taxes on business income		Property taxes		State sales taxes	Business taxes	All other taxes	Total taxes		
		Corporate	Individual		Employer	Employee	Corporate	Individual	Owners	Renters				Total	Corporate	Individual
RETAILERS—continued																
VI. Lumber and hardware—Continued.																
19. Lumber and building materials.	Total	.59	.51	....	.53	.15	.11	.11	.83	.31	.75	....	.14	2.96	3.13	2.67
	Under $20	.33	.01	....	.16	.11	.15	.05	1.53	.47	.89	....	.19	2.62	3.72	2.14
	$20 to $50	.55	.21	....	.27	.11	.09	.09	1.04	.34	.97	....	.18	2.68	3.20	2.57
	$50 to $300	.56	.46	....	53	.15	.12	.10	81	.37	.77	....	.16	2.85	3.03	2.80
	Over $300	.63	.84	....	.57	.16	.11	.18	.79	.11	.69	....	.10	3.14	3.23	2.45
20. Paint, wallpaper, glass.	Total	.28	.22	....	.65	.21	.04	.12	.93	.22	.74	....	.17	2.34	2.56	2.05
	Under $20	.24	.09	....	.29	.13	.28	.04	1.86	.22	1.06	....	.23	2.39	2.60	2.65
	$20 to $50	.17	.15	....	.51	.21	.02	.13	1.21	.28	.70	....	.15	1.73	1.40	1.46
	$50 to $300	.31	.36	....	.87	.23	.04	.14	.49	.19	.67	....	.17	2.69	2.85	2.47
	Over $300	....	....	....	....	....	....	....	....	....	....	....	....	....	....	....
21. Hardware	Total	.58	.28	....	.43	.13	.13	.09	1.03	.38	.70	....	.18	2.62	2.93	2.23
	Under $20	.11	.03	....	.11	.06	.13	.02	1.75	.44	.87	....	.32	2.48	2.58	2.66
	$20 to $50	.25	.17	....	.25	.11	.07	.11	1.21	.48	.80	....	.22	2.25	2.23	2.19
	$50 to $300	.48	.33	....	.51	.15	.11	.12	1.00	.33	.74	....	.16	2.75	3.09	2.20
	Over $300	1.04	1.32	....	.58	.14	.19	.00	.61	.34	.34	....	.07	2.87	2.95	2.19
22. Hardware and farm implements.	Total	.41	.34	....	.32	.11	.10	.13	.98	.43	.49	....	.11	2.10	2.40	2.30
	Under 20	.04	.06	....	.11	.06	.00	.01	1.96	.49	.83	....	.23	2.06	1.72	....
	$20 to $50	.26	.43	....	.23	.11	.10	.16	1.52	.58	.53	....	.18	2.00	2.61	2.62
	$50 to $300	.41	.25	....	.33	.12	.07	.09	.90	.38	.48	....	.09	2.07	2.26	2.03
	Over $300	.49	.86	....	.42	.08	.17	.37	.66	....	.35	....	.09	2.36	2.91	3.20
VII. Automobiles	Total	.16	.24	....	.42	.12	.03	.04	.41	.10	.61	....	.10	1.49	1.44	1.69
	Under $20	.53	.18	....	.17	.11	.06	.12	.85	.25	.87	....	.30	1.81	2.21	2.60
	$20 to $50	.25	.15	....	.31	.13	.06	.07	.89	.19	.62	....	.19	1.73	2.40	1.62
	$50 to $300	.14	.13	....	.40	.12	.03	.04	.44	.11	.62	....	.12	1.53	1.53	1.63
	Over $300	.16	.34	....	.43	.12	.03	.04	.35	.08	.59	....	.08	1.45	1.39	1.73
23. Auto vehicle dealers	Total	.15	.23	....	.41	.12	.03	.04	.39	.09	.61	....	.10	1.47	1.42	1.67
	Under $20	.05	.04	....	.17	.11	.56	.00	.72	.23	.97	....	.65	1.84	1.46	1.83
	$20 to $50	.26	.02	....	.31	.11	.05	.02	.94	.10	.74	....	.18	1.81	3.19	2.10
	$50 to $300	.13	.12	....	.37	.12	.03	.04	.42	.10	.63	....	.12	1.49	1.47	1.57
	Over $300	.16	.34	....	.43	.12	.03	.04	.35	.08	.51	....	.08	1.45	1.39	1.73
24. Auto parts (new)	Total	.26	.24	....	.55	.18	.05	.08	.63	.26	.59	....	.13	1.85	1.87	1.96
	Under $20	.56	.24	....	.17	.11	.02	.16	.91	.25	.85	....	.21	1.87	2.26	2.61
	$20 to $50	.23	.24	....	.31	.15	.09	.11	.81	.25	.52	....	.19	1.67	1.95	1.41
	$50 to $300	.22	.24	....	.68	.19	.04	.06	.61	.24	.61	....	.11	1.91	1.77	2.13
	Over $300	.47	....	....	.62	.19	.04	....	.43	.73	.22	....	.02	1.77	3.19	....

VIII. All other retail	Total	.44	.36	--------	.57	.18	.08	.10	.69	.42	.89	--------	.17	2.53	2.95	2.33
	Under $20	.21	.08	--------	.18	.09	.09	.03	.86	.62	.90	--------	.29	2.14	2.34	2.14
	$20 to $50	.37	.23	--------	.44	.21	.14	.13	1.30	.51	.80	--------	.19	2.21	2.70	2.17
	$50 to $300	.45	.30	--------	.64	.18	.09	.09	.44	.38	.92	--------	.16	2.52	2.70	2.52
	Over $300	.48	1.30	--------	.75	.19	.06	.25	.91	.31	.85	--------	11	3.26	3.42	1.23
25. Coal and other fuel	Total	.29	.14	--------	.49	.14	.04	.07	.50	.20	.79	--------	.22	2.19	2.65	1.94
	Under $20	.17	.00	--------	.15	.07	.07	.00	.82	.12	1.11	--------	.51	2.15	1.55	1.84
	$20 to $50	.26	.09	--------	.28	.11	.07	.05	.56	.14	.79	--------	.28	1.93	2.80	1.67
	$50 to $300	.28	.21	--------	.49	.14	.06	.09	.54	.21	.62	--------	.21	2.02	2.25	2.20
	Over $300	.30	.09	--------	.70	.19	.00	.08	.34	.24	1.19	--------	.19	2.79	3.18	1.23
26. Nurseries and florists	Total	.34	.13	--------	.68	.19	.16	.05	1.40	.18	.32	--------	.14	2.65	2.90	2.03
	Under $20	.18	.05	--------	.21	.09	.12	.02	1.66	.27	.61	--------	.33	2.61	3.44	2.47
	$20 to $50	.37	.10	--------	.62	.17	.44	.06	1.83	.13	.39	--------	.11	2.97	4.03	3.29
	$50 to $300	.43	.24	--------	.87	.27	.12	.06	1.08	.20	.18	--------	.12	2.68	2.92	1.55
	Over $300	.12	--------	--------	1.03	.14	.07	--------	.80	--------	.00	--------	.01	2.06	2.06	--------
27. Jewelry	Total	.58	.30	--------	.63	.23	.13	.14	2.32	.41	.73	--------	.14	3.02	3.52	2.64
	Under $20	.24	.27	--------	.15	.09	.05	.10	2.27	.49	.87	--------	.24	2.33	2.39	2.35
	$20 to $50	.49	.35	--------	.54	.36	.14	.22	1.63	.43	.71	--------	.14	2.56	2.48	2.85
	$50 to $300	.61	.28	--------	.69	.18	.05	.10	.87	.32	1.11	--------	.18	3.14	3.74	2.54
	Over $300	.61	--------	--------	.93	.26	.20	--------	3.27	.55	.00	--------	.03	3.85	3.85	--------
28. Stationery, books, etc.	Total	.42	.24	--------	.63	.18	.12	.09	.80	.31	1.05	--------	.08	2.53	3.19	2.10
	Under $20	.12	.06	--------	.08	.06	.06	.04	1.05	.19	.79	--------	.13	1.48	3.27	.84
	$20 to $50	.36	.32	--------	.46	.16	.05	.16	.83	.39	.64	--------	.09	1.71	2.79	1.68
	$50 to $300	.44	.27	--------	.81	.21	.14	.07	.79	.31	1.24	--------	.07	3.04	3.23	2.77
	Over $300															
29. Second-hand stores and all others.	Total	.51	.45	--------	.57	.17	.07	.11	.25	.66	1.00	--------	.16	2.46	2.76	2.47
	Under $20	.25	.05	--------	.22	.11	.10	.01	.29	1.47	.98	--------	.28	2.04	1.78	2.33
	$20 to $50	.36	.20	--------	.41	.19	.11	.08	.27	1.25	.60	--------	.22	2.04	2.50	1.84
	$50 to $300	.52	.38	--------	.67	.18	.09	.09	.16	.66	1.12	--------	.16	2.48	2.48	2.83
	Over $300	.56	1.70	--------	.66	.15	.00	.35	.46	.26	1.06	--------	.08	3.54	3.54	--------
IX. Filling stations	Total	.38	.11	--------	.29	.10	.09	.04	.45	.06	.43	--------	.12	1.50	1.66	1.35
	Under $20	.35	.02	--------	.11	.05	.05	.01	.62	.07	.75	--------	.22	1.46	2.39	.81
	$20 to $50	.25	.12	--------	.14	.09	.12	.07	.70	.06	.45	--------	.07	1.33	1.39	1.14
	$50 to $300	.34	.19	--------	.36	.11	.13	.06	.49	.06	.44	--------	.12	1.70	1.83	1.57
	Over $300	.44	.08	--------	.39	.12	.06	.00	.34	.00	.26	--------	.06	1.40	1.53	1.04
X. Restaurants	Total	.38	.27	--------	.86	.27	.08	.08	.88	.18	1.14	--------	.52	3.24	3.83	3.30
	Under $20	.27	.04	--------	.35	.15	.05	.00	1.17	.23	1.29	--------	1.08	3.25	2.63	3.11
	$20 to $50	.22	.15	--------	.62	.23	.15	.07	.72	.13	1.16	--------	.64	2.76	2.85	2.87
	$50 to $300	.41	.38	--------	.98	.24	.07	.11	.74	.12	1.18	--------	.37	3.29	3.50	3.43
	Over $300	.42	--------	--------	1.59	.61	.07	--------	1.55	.39	.67	--------	.15	4.54	4.54	--------
XI. Drugs and cosmetics	Total	.31	.16	--------	.32	.12	.07	.07	1.14	.34	.94	--------	.24	2.17	2.58	2.15
	Under $20	.16	.04	--------	.11	.07	.07	.01	1.33	.70	.94	--------	.34	2.17	2.35	1.83
	$20 to $50	.21	.20	--------	.18	.11	.09	.11	.94	.36	1.00	--------	.27	2.17	2.43	2.40
	$50 to $300	.34	.20	--------	.50	.15	.06	.09	1.47	.26	.89	--------	.16	2.20	2.50	1.90
	Over $300	.47	--------	--------	.59	.17	.09	--------	.68	.00	.84	--------	.26	2.04	2.98	--------

TABLE 19.—*Tax payments of manufacturers, retailers, wholesalers as percentages of sales, by industries and size of firms, 1938*—Continued

	Size classes (Sales in thousands of dollars)	Federal taxes on business income		Federal excises	Social security pay-roll taxes on		State taxes on business income		Property taxes		State sales taxes	Business taxes	All other taxes	Total taxes		
		Corporate	Individual		Employer	Employee	Corporate	Individual	Owners	Renters				Total	Corporate	Individual
WHOLESALERS																
I. Food	Total	0.18	0.09	-----	0.21	0.05	0.05	0.03	0.27	0.08	0.25	0.01	0.08	1.03	0.98	0.58
	Under $50	.24	.05	-----	.15	.04	.01	.17	.48	.14	.22	.01	.18	1.08	2.01	.61
	$50 to $200	.16	.12	-----	.20	.07	.04	.03	.25	.10	.22	.02	.10	1.01	1.09	.63
	$200 to $500	.15	.09	-----	.20	.05	.05	.04	.32	.10	.22	.01	.09	.74	.77	.58
	Over $500	.18	.09	-----	.21	.05	.05	.03	.26	.06	.26	.01	.07	1.09	1.00	.55
1. Confectionery and tobacco.	Total	.09	.05	-----	.11	.03	.06	.03	.16	.06	.90	.01	.06	1.42	.83	.29
	Under $50	.25	.01	-----	.08	.04	.03	.02	.52	.31	.31	.02	.21	1.48	2.70	.86
	$50 to $200	.09	.17	-----	.11	.04	.02	.04	.17	.09	.64	.02	.05	1.38	1.40	.25
	$200 to $500	.08	.04	-----	.08	.02	.01	.02	.12	.10	.99	.00	.05	.94	.29	.29
	Over $500	.09	.03	-----	.11	.03	.06	.03	.16	.05	.92	.01	.06	1.46	.84	.29
2. Dairy and poultry	Total	.15	.05	-----	.13	.04	.02	.05	.07	.04	.00	.00	.03	.37	.36	.36
	Under $50	-----	-----	-----	.01	.01	-----	-----	.09	.02	.21	.00	.06	1.01	-----	-----
	$50 to $200	.17	.03	-----	.15	.05	.05	.01	.33	.02	.02	.00	.09	.41	.54	.09
	$200 to $500	.10	.07	-----	.16	.04	.05	.09	.15	.03	.01	.00	.07	.48	.43	.48
	Over $500	.16	.05	-----	.12	.03	.02	.04	.04	.04	.00	.00	.01	.34	.35	.20
3. Groceries	Total	.21	.12	-----	.22	.05	.05	.05	.34	.12	.17	.01	.10	1.13	1.17	.66
	Under $50	.00	.00	-----	.23	.03	.00	.00	-----	.11	.27	.01	.25	.82	.85	.27
	$50 to $200	.16	.03	-----	.17	.07	.04	.00	.30	.23	.28	.05	.11	1.42	1.63	.40
	$200 to $500	.22	.10	-----	.19	.06	.06	.06	.31	.14	.23	.01	.10	.82	.86	.73
	Over $500	.21	.13	-----	.22	.05	.05	.04	.35	.11	.15	.01	.10	1.17	1.19	.64
4. Meats and fish	Total	.16	.14	-----	.41	.12	.13	.03	.39	.08	.04	.02	.07	1.13	1.31	.68
	Under $50	.39	.13	-----	.26	.05	.00	.00	.55	.00	.11	.01	.13	.42	-----	.55
	$50 to $200	.17	.14	-----	.30	.08	.04	.00	.18	.09	.11	.01	.11	.83	1.00	.65
	$200 to $500	.15	.14	-----	.34	.08	.05	.09	.56	.04	.02	.02	.09	.88	.99	1.16
	Over $500	.16	.14	-----	.50	.16	.19	.02	.30	.14	.04	.02	.03	1.35	1.48	.54
5. Produce and fruit	Total	.16	.11	-----	.25	.08	.04	.02	.12	.07	.03	.00	.08	.69	.71	.70
	Under $50	.05	1.00	-----	.18	.03	.00	1.06	.42	.08	.17	.00	.20	1.09	1.62	-----
	$50 to $200	.17	.12	-----	.19	.08	.03	.04	.27	.09	.04	.00	.14	.84	.91	1.11
	$200 to $500	.08	.12	-----	.23	.06	.03	.02	.22	.08	.05	.00	.09	.60	.61	.63
	Over $500	.18	.09	-----	.27	.09	.04	.00	.10	.01	.03	.00	.06	.71	.73	.65
II. Construction supplies	Total	.59	.32	-----	.38	.11	.12	.08	.69	.14	.21	.02	.08	1.91	2.06	1.40
	Under $50	.09	.26	-----	.35	.14	.06	.12	1.37	.14	.21	.02	.20	1.73	1.06	2.51
	$50 to $200	.33	.32	-----	.43	.13	.10	.11	.60	.20	.22	.02	.10	1.41	1.47	1.50
	$200 to $500	.42	.53	-----	.45	.12	.07	.12	.70	.20	.31	.02	.10	1.70	1.72	1.82
	Over $500	.67	.15	-----	.36	.10	.13	.04	.69	.09	.17	.02	.07	2.04	2.19	.39

6. Lumber	Total	.41	.16		.31	.09	.09	.07	.71	.06	.19	.01	.07	1.55	1.62	.72
	Under $50	.02	.47		.71	.21	.10	.17	1.82	.11	.11	.03	.08	2.42	1.33	2.74
	$50 to $200	.19	.23		.36	.14	.04	.09	.55	.11	.18	.01	.12	.97	1.07	.98
	$200 to $500	.39	.14		.35	.09	.11	.09	.78	.17	.42	.01	.05	1.48	1.62	.97
	Over $500	.43	.11		.29	.08	.09	.05	.71	.03	.14	.02	.07	1.59	1.65	.23
7. Hardware	Total	.74	.37		.42	.13	.15	.22	1.06	.29	.20	.02	.08	2.61	2.88	1.60
	Under $50	.03	.25		.32	.20		.28	2.13	.25	.38	.02	.27	1.66		1.66
	$50 to $200	.36	.41		.47	.13	.23	.22	.71	.32	.11	.02	.07	1.62	1.64	1.60
	$200 to $500	.61	.27		.46	.11	.12		.75	.58	.50	.01	.04	2.60	2.60	
	Over $500	.78			.41	.13	.14		1.09	.27	.18	.02	.08	2.65	2.94	
8. Plumbing and heating supplies.	Total	.83	.49		.42	.11	.15	.05	.50	.29	.27	.04	.11	2.07	2.23	2.17
	Under $50	.06	.23		.29	.15	.01	.04	1.40	.08	.34	.03	.28	2.26		3.12
	$50 to $200	.51	.34		.34	.10	.12	.07	.69	.34	.28	.02	.13	1.74	2.00	1.79
	$200 to $500	.50	.83		.48	.11	.04	.02	.71	.24	.22	.03	.15	1.70	1.63	2.17
	Over $500	.03	.23		.41	.11	.20	.05	.44	.39	.07	.04	.09	2.83	2.95	
9. Electrical goods	Total	.53	.44		.46	.12	.11	.12	.28	.15	.20	.02	.07	1.83	1.93	1.68
	Under $50	.14	.14		.28	.10	.08	.14	.32	.17	.04	.01	.16	.62	1.04	.62
	$50 to $200	.32	.37		.57	.16	.08	.10	.41	.15	.24	.03	.06	1.48	1.44	1.72
	$200 to $500	.29	.70		.52	.15	.05	.21	.41	.19	.26	.02	.10	1.58	1.49	2.17
	Over $500	.72	.24		.38	.09	.14	.00	.20	.09	.15	.01	.03	2.11	2.20	.76
III. Other wholesale	Total	.53	.35		.44	.11	.10	.09	.48	.25	.20	.03	.06	1.77	1.95	1.42
	Under $50	.18	.35		.33	.14	.07	.10	.97	.35	.28	.03	.21	1.43	1.95	1.52
	$50 to $200	.36	.24		.48	.14	.08	.06	.62	.25	.28	.02	.12	1.79	2.03	1.40
	$200 to $500	.43	.54		.47	.12	.07	.18	.65	.25	.15	.02	.12	1.72	1.87	1.24
	Over $500	.58	.34		.42	.09	.10	.05	.42	.25	.19	.03	.03	1.79	1.95	1.52
10. Drugs and industrial	Total	.36	.94		.27	.05	.06	.41	.31	.25	.31	.04	.02	1.46	1.47	1.05
	Under $50	.03	.24		.12	.06	.13	.23	1.01	.34	.07	.00	.06	1.51	1.32	
	$50 to $200	.06	.48		.36	.10	.14	.00	.35	.02	.03	.00	.11	.93	.88	1.05
	$200 to $500	.49	2.43		.31	.09	.06	1.09	1.61	.00	.32	.00	.06	.90	.90	
	Over $500	.36	.09		.27	.05	.05	.00	.28	.26	.32	.04	.02	1.48	1.48	
11. Paints and varnishes	Total	.32	.78		.41	.09	.10	.02	.40	.16	.25	.00	.05	1.80	1.35	2.40
	Under $50				.02	.02					.07	.00	.00			
	$50 to $200	.62	.12		.40	.12	.01	.06	.38	.31	.63	.02	.07	2.09	1.74	2.28
	$200 to $500	.20	1.03		.43	.09	.39	.00	.95	.00	.01	.00	.11	1.23		2.26
	Over $500	.32	1.03		.40	.09	.06	.00	.18	.18	.29	.03	.00	2.03	1.22	2.48
12. Automotive equipment.	Total	.48	.34		.56	.15	.09	.10	.54	.31	.22	.02	.09	1.79	1.86	1.66
	Under $50	.30	.29		.33	.15	.00	.11	.83	.30	.22	.02	.23	1.40	1.97	1.40
	$50 to $200	.35	.25		.56	.16	.05	.04	.57	.31	.35	.01	.12	2.07	2.17	2.13
	$200 to $500	.30	.56		.51	.14	.06	.26	.48	.33	.12	.02	.10	1.51	1.46	1.75
	Over $500	.61	.25		.62	.14	.13	.00	.47	.33	.16	.03	.04	1.87	2.01	1.09
13. Machinery and equipment.	Total	.77	.86		.50	.11	.25	.04	.49	.41	.15	.03	.10	2.47	2.51	1.60
	Under $50	.09	.74		.16	.16	.10	.00	1.38	1.39	.71	.00	.11	1.34	1.09	
	$50 to $200	.45	.48		.36	.13	.17	.03	1.06	.45	.30	.02	.18	1.89	2.40	1.30
	$200 to $500	.58	.33		.58	.13	.05	.14	.65	.34	.24	.05	.15	2.29	2.33	1.88
	Over $500	.84	1.51		.49	.11	.29	.00	.43	.40	.11	.02	.09	2.56	2.56	
14. Miscellaneous supplies.	Total	.67	.35		.61	.15	.06	.12	.56	.29	.36	.04	.07	2.17	2.56	1.25
	Under $50	.06	.17		.35	.15	.06	.02	.74	.43	.49	.02	.20	1.68	3.84	1.55
	$50 to $200	.45	.35		.55	.17	.06	.12	.48	.29	.48	.03	.11	1.87	2.22	1.53
	$200 to $500	.41	.49		.43	.09	.08	.19	.53	.21	.12	.02	.12	1.12	1.32	.60
	Over $500	.82	.18		.73	.16	.06	.07	.58	.32	.39	.06	.03	2.70	3.02	1.69

TABLE 19.—*Tax payments of manufacturers, retailers, wholesalers as percentages of sales, by industries and size of firms, 1938*—Continued

	Size classes (Sales in thousands of dollars)	Federal taxes on business income		Federal excises	Social security pay-roll taxes on		State taxes on business income		Property taxes		State sales taxes	Business taxes	All other taxes	Total taxes		
		Corporate	Individual		Employer	Employee	Corporate	Individual	Owners	Renters				Total	Corporate	Individual
WHOLESALERS—continued																
III. Other wholesale—Con.																
15. Paper and paper products.	Total	0.60	0.44	--------	0.38	0.08	0.07	0.04	0.53	0.14	0.23	0.05	0.07	1.54	1.67	1.13
	Under $50	.19	.05	--------	.17	.12	.04	.09	.45	.24	.25	.01	.04	.96	1.31	1.73
	$50 to $200	.38	.21	--------	.38	.14	.09	.03	.59	.29	.15	.00	.11	1.40	2.06	1.10
	$200 to $500	.33	.15	--------	.41	.10	.05	.06	.96	.13	.11	.03	.13	1.77	1.90	1.07
	Over $500	.71	.76	--------	.38	.07	09	--------	.25	.09	.28	.08	.01	1.29	1.29	--------
16. Dry goods	Total	.26	.27	--------	.40	.11	.05	.08	.69	.21	.12	.02	.04	1.44	1.45	1.60
	Under $50	.27	.10	--------	.29	.09	.00	.63	.45	.18	.18	.02	.21	1.09	1.92	--------
	$50 to $200	.19	.14	--------	.36	.10	.06	.04	.77	.20	.15	.01	.07	1.07	1.39	.80
	$200 to $500	.19	.05	--------	.32	.10	.12	.05	.26	.36	.05	.04	.09	1.07	1.22	.76
	Over $500	.28	.35	--------	.41	.11	.04	.09	.73	.19	.12	.01	.03	1.50	1.46	1.82
17. All other	Total	.60	.30	--------	.43	.11	.08	.06	.47	.17	.12	.03	.07	1.70	2.13	1.03
	Under $50	.21	.57	--------	.39	.15	.08	.14	1.20	.29	.19	.04	.24	1.46	1.53	1.68
	$50 to $200	.40	.18	--------	.47	.13	.09	.06	.66	.20	.18	.02	.13	1.64	2.06	1.18
	$200 to $500	.52	.45	--------	.49	.12	.08	.09	.63	.21	.17	.02	.11	1.99	2.18	1.35
	Over $500	.68	.26	--------	.38	.09	.08	.02	.37	.15	.10	.03	.03	1.62	2.14	.52
IV. Alcoholic beverages	Total	.80	.16	3.77	.21	.07	.13	.04	.20	.04	5.08	.03	.30	6.59	11.54	2.24
	Under $50	.12	.00	--------	.19	.05	--------	.00	.27	.33	--------	.00	.64	--------	--------	--------
	$50 to $200	.08	.13	--------	.20	.07	.03	.10	.25	.09	3.05	.00	.36	3.96	14.57	2.07
	$200 to $500	.13	.36	--------	.19	.06	.04	.00	.16	.06	4.16	.05	.33	4.71	18.54	2.51
	Over $500	1.01	.06	--------	.23	.08	.16	.00	.19	.03	5.34	.04	.26	7.30	10.79	--------
V. Petroleum	Total	.45	.24	--------	.19	.04	.11	.14	.31	.12	14.13	.01	.13	15.27	14.09	19.48
	Under $50	.30	--------	--------	.11	.06	.05	--------	.25	.58	9.95	.02	.17	11.08	12.69	--------
	$50 to $200	.35	.22	--------	.21	.07	.09	.10	.35	.14	8.90	.03	.20	11.50	12.18	13.65
	$200 to $500	.46	.19	--------	.27	.07	.12	.09	.37	.12	19.48	.02	.08	19.57	18.21	24.54
	Over $500	.48	.31	--------	.17	.03	.12	.23	.30	.01	16.48	.01	.12	15.32	12.64	24.20

Source: Tax survey worksheets of the research and statistics section of Dun & Bradstreet, Inc.

TABLE 20.—*Federal-State pay-roll taxes as percent of gross margin, by size classes (assets) and industries, 1937*

[For number of cases, see appendix E, table II, Part 5, p. 142.]

Size classes (assets in millions of dollars)	Food	Tobacco	Beverages	Textiles	Lumber	Paper	Printing	Chemicals	Petroleum	Rubber	Leather	Building products	Iron and steel	Nonferrous metals	Machinery	Transportation equipment	Miscellaneous manufacturing	Total manufacturing	Chain stores	Department stores	Wholesale	Miscellaneous merchandise	Total merchandising
Under 1	0.9	0.5	0.7	1.5			1.3	1.2					1.3		1.1	1.6	1.4	1.2	1.0				1.0
1 to 5	1.3	.9	.5	1.7		1.6	1.4	.6	0.3	1.5		1.6	1.6	1.3	1.4	1.7	1.6	1.3	1.0	1.2	1.3	1.1	1.2
5 to 10	1.3		.4	1.9	1.5	1.4	1.5	.9			3.1	1.4	1.6	1.5	1.4	1.8	1.5	1.5	1.2	1.1	1.0		1.2
10 to 50	1.0	1.1		1.9		1.2	1.0	1.0				1.3	1.5	1.4	1.3	1.6	1.2	1.3	1.0	1.1	1.2	1.1	1.1
50 to 200	1.3	.7		2.4		2.6	1.1			1.4		1.3	1.4	1.0	1.2	1.4	1.2	1.3	1.0				1.0
Over 200	1.7	.7						.9	.7				1.4	.9	1.1			1.1	.9	1.0			1.0
Total	1.3	.8	.5	2.0	1.5	1.4	1.2	.9	.7	1.4	3.1	1.3	1.4	1.1	1.2	1.5	1.2	1.3	1.0	1.0	1.2	1.1	1.1

Source: Department of Commerce Survey of Business Taxation.

TABLE 21.—*Federal-State pay-roll taxes as percent of gross margin, by labor cost classes and industries, 1937*

[For number of cases, see appendix E, table II, Part 4, p. 142.]

LABOR COST CLASSES (PAY ROLLS AS OF PERCENT SALES)	Food	Beverages	Tobacco	Textiles	Lumber	Paper	Printing	Chemicals	Petroleum	Rubber	Leather	Building products	Iron and steel	Nonferrous metals	Machinery	Transport equipment	Miscellaneous manufacturing	Chain stores	Department stores	Wholesale	Miscellaneous
Under 10	0.9	0.3	0.7					1.4	0.5					1.0	0.9		0.4	1.0	0.7	1.2	
10 to 20	1.2	.4	.8	1.6		0.8		.8	.7	1.4		0.8	1.1	1.0	1.2	1.3	1.0	1.0	1.0	1.1	0.8
20 to 30	1.3	.5	1.2	1.8		1.02	1.1	1.0	.9	1.2	1.8	1.2	1.4	1.4	1.2	1.4	1.3	1.0	1.3	1.6	1.1
30 to 40	1.3	1.3	1.5	1.9	1.5	1.5	1.6	1.2		1.5	1.7	1.4	1.5		1.2	1.6	1.2	1.3			1.3
40 to 50	1.6			1.8	1.9		1.7				2.2	1.5	1.7	1.9	1.6	1.9	1.6				
Over 50				1.9			1.7					1.6			1.6	2.3	2.2			1.9	

Source: Department of Commerce Survey of Business Taxation.

TABLE 22.—*Federal-State pay roll and property tax payments as percent of gross margin, by profit rate classes and industries, 1937*

[For number af cases, see appendix E, table II, Part 2, p. 141.]

Profit rate classes	Food	Beverages	Tobacco	Textiles	Lumber	Paper	Printing	Chemicals	Petroleum	Rubber	Leather	Building products	Iron and steel	Nonferrous metals	Machinery	Transportation equipment	Miscellaneous manufacturing	Chain stores	Department stores	Wholesale	Miscellaneous trade
1. PAY-ROLL TAXES																					
Deficit	1.3	0.6	------	2.2	------	------	0.9	1.2	------	2.3	2.7	1.6	------	------	1.7	2.5	1.2	1.4	------	1.2	------
Under 5	1.0	.4	------	1.8	------	2.2	1.6	1.0	------	1.5	2.1	1.4	1.7	1.7	1.5	1.7	1.8	.8	1.3	1.4	1.1
5 to 10	1.3	.4	1.0	1.9	------	1.2	1.1	1.2	0.7	1.4	1.8	1.3	1.4	1.1	1.5	1.7	1.4	1.1	1.1	1.1	------
10 to 15	1.1	.4	.8	1.6	1.6	1.7	1.2	1.1	------	------	1.4	1.3	1.3	1.0	1.2	1.6	1.2	.9	.9	1.3	------
15 to 20	.8	.5	.5	1.6	------	1.0	------	.9	------	1.2	------	1.3	1.2	.9	1.1	1.7	1.2	1.0	1.1	------	1.0
20 to 25	.9	.5	1.5	1.7	------	1.3	1.5	.8	------	------	------	1.3	1.5	1.4	1.4	1.3	.5	.8	------	------	1.1
25 to 30	2.1	------	------	1.2	------	------	1.6	.7	------	------	------	1.3	1.7	1.0	1.3	1.5	1.2	1.0	------	------	.7
30 to 35	1.0	.6	------	------	------	------	------	.9	------	------	------	1.2	------	------	1.1	1.7	1.0	------	------	------	------
35 to 40	.5	------	------	------	------	------	------	------	.3	------	------	------	1.0	------	1.5	1.5	------	------	------	------	------
Over 40	.5	.4	.6	------	------	------	------	.5	------	------	------	.8	------	1.0	1.0	1.3	.8	------	------	------	------
2. PROPERTY TAXES																					
Deficit	.9	.7	------	1.9	------	------	.4	2.9	------	.9	1.2	2.2	------	------	1.0	2.6	1.8	1.3	------	1.9	------
Under 5	1.2	.9	------	1.0	------	2.0	1.0	4.1	------	.9	.3	1.5	1.8	1.4	1.0	1.2	1.8	.2	2.8	1.3	2.8
5 to 10	1.2	.4	.9	1.2	------	1.6	.8	1.1	2.0	1.3	.8	1.5	1.5	2.4	1.0	1.3	1.3	.9	1.5	1.7	------
10 to 15	1.2	.3	1.0	.8	1.0	1.9	.6	.9	------	------	.9	1.3	1.3	1.3	.9	.8	.8	2.3	1.0	1.6	------
15 to 20	.8	7.2	.7	1.2	------	.9	------	1.5	------	.7	------	1.0	1.3	1.2	.7	1.0	1.3	2.1	1.0	------	.4
20 to 25	1.0	.9	.3	.5	------	.9	.9	1.3	------	------	------	.4	.4	.6	.6	.7	.2	1.2	------	------	.3
25 to 30	3.7	------	------	.4	------	------	.1	1.2	------	------	------	.2	1.4	2.6	.6	.7	.3	1.2	------	------	1.5
30 to 35	.4	.4	------	------	------	------	------	1.0	------	------	------	.6	------	------	.8	.8	.4	------	------	------	------
35 to 40	.4	------	------	------	------	------	------	------	1.9	------	------	------	1.7	------	.8	.7	------	------	------	------	------
Over 40	.4	.4	.3	------	------	------	------	------	------	------	------	.8	------	1.2	.6	.8	.4	------	------	1.1	------

Source: Department of Commerce Survey of Business Taxation.

INDEX

262698—41—No. 9——15

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